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MARKET ENTRY STRATEGIES AND DISTRIBUTION CHANNEL STRUCTURES

Finnish Case Examples in Poland

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15.5.2006

Hyväksytty liiketoiminnan teknologian laitoksella 24,5 2006
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ABSTRACT

Business growth potential has increased the interest on the new European Union (EU) member countries located in Central and Eastern Europe (CEE). Especially Poland as the biggest country of all new EU member countries has become an attractive market. This transition economy is becoming a significant player in the EU in terms of logistics, low production costs and skilled workforce. In consequence, the internationalization interest of Finnish companies has started to move from Western towards Eastern European countries. However, companies entering these new market areas will have to plan country-specific strategies for market entry, supporting the differences in specified target country.

This study examines from a managerial point of view the market entry strategies of Finnish production companies established in Poland, especially their modes of market entry and distribution channel structures. The first objective is to examine through literature review different market entry modes, distribution channels and characteristics of a transition economy Poland. The second objective is to develop a framework in order to determine the internationalization patterns and distribution channel structures. The third objective is to identify and illustrate through empirical study the relation of distribution channel structures to market entry modes.

Data for the empirical part is collected through semi-structured theme interviews from eight Finnish production companies established in Poland. The empirical analysis guided through three key elements from the framework reveals that the internationalization pattern of case companies consists of export, sales subsidiary and production subsidiary entry modes. Furthermore, one half of the production units are established through greenfield investments, and one half through company acquisitions. Surprisingly, the acquisition is more preferred than the greenfield investment. In addition, the distribution channel structures of companies established through greenfield investments are less developed with a rather decentralized nature, than the ones established through acquisitions with more centralized and value-adding structures. This is partly explained with the slower development rate and with the high level of control that companies want to have. However, the development of the distribution channel structures of greenfield investments is moving rapidly from decentralized towards centralized structures. The effects of Poland's EU-membership are also considered mainly good, having positive impact on the final market entry decisions among half of the interviewed companies. To conclude, Poland is considered a significant and important target market for Finnish companies from market, logistic and strategic perspectives.

Keywords: distribution channel structure, internationalization, market entry mode, Poland
Total number of pages: 90

Kansainvälistyminen ja Jakelukanavarakenteet – Suomalaisten Yritysten Kokemukset Puolassa

TIIVISTELMÄ

Euroopan Unioniin (EU) vuonna 2004 liittyneiden jäsenmaiden talouden kasvunäkymät ovat lisänneet kiinnostusta näihin Itä- ja Keski-Eurooppaan sijoittuviin maihin. EU:n uusista jäsenvaltioista suurin, Puola on osoittautunut erittäin houkuttelevaksi markkinaksi, joka on kehittymässä merkittäväksi EU:n talousalueella niin logistiikan, edullisten tuotantokustannusten kuin myös työvoiman saatavuuden kannalta. Myös suomalaisten yritysten kiinnostus kansainvälistyä on alkanut siirtyä Länsi-Euroopan maista kohti Itä-Eurooppaa. Uusien jäsenmaiden nopea kehitys on kuitenkin edellyttänyt ulkomaisilta yrityksiltä maakohtaisia kansainvälistymisstrategioita, jotka tukevat kunkin maan erityispiirteitä.

Tämä tutkimus tarkastelee johdon näkökulmasta suomalaisten tuotantoyritysten kansainvälistymisstrategioita Puolaan, erityisesti etabloitumismuotoja sekä jakelukanavarakenteiden ominaispiirteitä. Tutkimuksen ensimmäinen tavoite on määrittää kirjallisuuden avulla etabloitumistavat, jakelukanavatyypit sekä Puolan kaltaisen Itä-Euroopan maan erityispiirteet. Toisena tavoitteena on luoda malli yritysten kansainvälistymiskuvioiden sekä niiden jakelukanavarakenteiden määrittelemiseksi kohdemarkkinoilla. Kolmantena tavoitteena on tunnistaa ja kuvata empiirisessä tutkimuksessa tarkasteltavien yritysten jakelukanavarakenteiden ja etabloitumistapojen välistä yhteyttä.

Empiirinen data koostuu kahdeksasta Puolaan etabloituneen suomalaisen tuotantoyrityksen teemahaastattelusta. Empiirinen analyysi perustuu esitettyyn malliin ja sen kolmeen avaintekijään. Tutkimuksesta ilmenee, että yritysten kansainvälistymiskuvio alkaa viennillä, myyntiyhtiön luomisella, päätyen paikallisen tuotantolaitoksen perustamiseen. Tuotantolaitoksen perustaminen jakautuu tasaisesti greenfield-investointeihin ja yritysostoihin. Yritysosto koetaan kuitenkin paremmaksi etabloitumismuodoksi. Lisäksi etabloitumismuodolla on vaikutusta yritysten jakelukanavarakenteisiin. Greenfield-investoinneilla perustetuilla yrityksillä on hajautetut ja epäsuorat jakelukanavarakenteet, yritysostojen kautta perustetuilla yrityksillä suorat, keskittyneet ja lisä-arvon tuottamista mahdollistavat rakenteet. Greenfield-investointien jakelukanavarakenteet näyttävät kuitenkin kehittyvän hajautetuista kohti keskittyneitä ja suoria rakenteita. Tuloksissa ilmeni myös, että Puolan EU-jäsenyyden tuomat vaikutukset ovat enimmäkseen myönteisiä. Puola koetaan erittäin merkittäväksi ja tärkeäksi markkinaksi suomalaisyritysten keskuudessa.

Avainsanat: jakelukanavarakenne, kansainvälistyminen, etabloitumismuoto, Puola
Sivujen lukumäärä (liitteineen): 90

MARKET ENTRY STRATEGIES AND DISTRIBUTION CHANNEL STRUCTURES

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Abstract

Tiivistelmä

List of Figures

List of Tables

1	INTRODUCTION.....	9
1.1	PROBLEM STATEMENT AND OBJECTIVES.....	10
1.2	RESEARCH APPROACH	11
1.3	STRUCTURE	14
1.4	KEY DEFINITIONS	14
2	FOREIGN MARKET ENTRY MODES.....	16
2.1	INTERNATIONALIZATION FACTORS	16
2.2	MARKET ENTRY MODES.....	18
2.3	GREENFIELD INVESTMENT VS. COMPANY ACQUISITION	21
2.4	DIFFERENT APPROACH TO MARKET ENTRY RESEARCH.....	23
2.5	THE POLISH MARKET.....	28
2.5.1	<i>Poland as a transition economy.....</i>	<i>28</i>
2.5.2	<i>Development of distribution.....</i>	<i>31</i>
3	DISTRIBUTION CHANNELS WITHIN TARGET MARKET	33
3.1	DIFFERENT CHANNEL ASPECTS	33
3.2	DISTRIBUTION CHANNEL INTERMEDIARIES.....	36
3.3	DIRECTNESS OF DISTRIBUTION CHANNELS.....	38
3.4	STRUCTURE OF DISTRIBUTION CHANNELS	41
3.4.1	<i>Four generic distribution structures</i>	<i>43</i>
3.4.2	<i>Functional and innovative product types.....</i>	<i>49</i>
3.4.3	<i>Evolution of distribution structures in the EU</i>	<i>51</i>
3.5	FACTORS AFFECTING THE DISTRIBUTION CHANNEL CHOICE.....	52
3.6	KEY ELEMENTS AFFECTING DISTRIBUTION CHANNEL STRUCTURE IN FOREIGN ENTRY.....	54

4	FINNISH EXPERIENCES IN POLAND	55
4.1	INTERVIEW PROCESS	56
4.2	COMPANY DESCRIPTIONS	57
4.2.1	<i>Consolis Polska Sp. z o.o</i>	57
4.2.2	<i>Kuusakoski Sp. z o.o</i>	58
4.2.3	<i>KWH Pipe Poland Sp. z o.o</i>	59
4.2.4	<i>Martela Sp. z o.o</i>	60
4.2.5	<i>Nordkalk Sp. z o.o</i>	60
4.2.6	<i>Raisio Polska Food Sp. z o.o</i>	62
4.2.7	<i>Ruukki Polska Sp. z o.o</i>	63
4.2.8	<i>Sokolów S.A / HK-Ruokatalo</i>	63
4.3	CROSS-CASE ANALYSIS AND SYNTHESIS	65
4.3.1	<i>Market entry process</i>	65
4.3.2	<i>Strategic importance of Poland</i>	71
4.3.3	<i>Distribution channel strategies</i>	74
4.3.4	<i>Distribution channel structure in foreign market entry</i>	79
5	CONCLUSIONS.....	81
5.1	SUMMARY	81
5.2	MAIN FINDINGS	83
5.3	SUGGESTIONS FOR FUTURE RESEARCH	84

References

Appendices

List of Figures

Figure 2-1 Push and pull factors in internationalization of Finnish firms (Luostarinen 1994, 7)	17
Figure 2-2 Market entry modes	19
Figure 2-3 Different ownerships of FDI.....	21
Figure 2-4 Development of internationalization pattern of the firm (Luostarinen 1993).....	25
Figure 2-5 Patterns in the market entry modes and channels of distribution in the machine tool industry (Wheeler et al. 1996, 52)	27
Figure 2-6 Push-factors of transition economy Poland	29
Figure 3-1 Relations between different channel aspects	33
Figure 3-2 The value chain (Porter 1985)	35
Figure 3-3 Market entry modes with distribution channel intermediaries	37
Figure 3-4 Decentralized and centralized distribution structures (Inkiläinen 1998, 51)	42
Figure 3-5 Symbols for figures (Inkiläinen 1998, 77).....	44
Figure 3-6 Direct decentralized distribution structures without inventories (A) and Decentralized distribution structure with inventory (B) (Inkiläinen 1998, 77).....	44
Figure 3-7 Direct delivery with centralized transit point (C) (Inkiläinen 1998, 77)	45
Figure 3-8 Centralized single-echelon distribution structures (D) and (E) (Inkiläinen 1998, 78).....	45
Figure 3-9 Multiple sales channels (Gabrielsson 1999, 28)	46
Figure 3-10 Centralized value-adding single-echelon distribution structure (F) (Inkiläinen 1998, 79)	47
Figure 3-11 Multi-echelon decentralized (G) and multi-echelon centralized (H) distribution structures (Inkiläinen 1998, 80)	48
Figure 3-12 Distribution channel structure matrix	48
Figure 3-13 Efficient and Responsive supply chains (Fisher 1997).....	50
Figure 3-14 Key elements affecting distribution channel structure in foreign market entry	54
Figure 4-1 Market entry patterns to Poland.....	68
Figure 4-2 Distribution channel structures of Consolis, Kuusakoski and KWH Pipe.....	75
Figure 4-3 Distribution channel structures of Martela and Nordkalk.....	76
Figure 4-4 Distribution channel structures of Raisio.....	77
Figure 4-5 Distribution channel structure development of Ruukki	78
Figure 4-6 Effects of the market entry mode on the distribution channel structure	79

List of Tables

Table 1-1 Transcription levels (Koskinen et al. 2005, 317)	12
Table 3-1 Decision making criteria on direct vs. indirect distribution channels (West 1989)	39
Table 3-2 Major factors affecting the distribution channel form selection, integrated vs. independent (Simplified: Anderson and Coughlan, 1987).....	40
Table 3-3 Differences in the demand of functional and innovative products (Fisher 1997)	50
Table 4-1 The most common market entry motives and challenges (n=8).....	66
Table 4-2 FDI market entry modes greenfield investment or acquisition	69
Table 4-3 The share of exports out of total turnover (n=8)	72
Table 4-4 The main export countries.....	73

1 Introduction

The internationalization of Finnish firms has been studied broadly for decades. However, many of the studies have focused on internationalization processes mainly to Western European countries. In recent years, new business potential especially in Central and Eastern European (CEE) countries has increased the need for knowledge on these new markets. In consequence, the internationalization interest of Finnish companies for new foreign operations has started to move from Western to Eastern European countries.

In May 2004, European Union's (EU) biggest enlargement ever in terms of scope and diversity integrated 10 new countries with more than 100 million citizens to the existing EU, creating a wider internal market area for 25 member countries and expanding the EU area more to east. Removed trade barriers, a common currency and the free movement of goods, work force and services give a quite homogeneous picture of the EU. However, there are many factors that prove the EU to be still rather heterogeneous than homogenous. Market areas within the EU differ notably in terms of customer base, product mix, channel members, company's position and competitiveness in the area. Especially new members of the EU differ widely from the old members in terms of ethnic consistencies, languages, historical identities, industrial structures and economies. Therefore, Europe's heterogeneity leads to the fact that general one-size-fits-all European distribution structures cannot be created, as the effective distribution structures are very dependent on the country, industry and individual company features. Companies planning internationalization within the EU will have to plan country-specific market entry strategies supporting the differences in the specified target country, taking into account the choice of market entry mode and distribution channel structure in chosen market area.

Poland as the biggest country of all the new member countries forms a market of 40 million citizens, almost the same size as the rest of the new members together. This transition economy is becoming a significant player in the EU in terms of logistics, low production costs and skilled workforce. In fact, the stable and calm interest of Finnish companies towards Poland has clearly increased along their EU-membership. Currently over 200 Finnish companies are operating in Poland, and the number of new Finnish companies being established is increasing every year. All in all, Poland is considered as a very attractive and growing market for new foreign expansions.

1.1 Problem statement and objectives

The purpose of the study is to provide relevant, value-adding information on entry strategies for Finnish production companies already performing export operations or those planning to establish local operations to Poland. Instead of giving a general market overview on the Polish market, the scope of the study is to focus on the market entry modes of Finnish production companies and their distribution strategies in Poland. In addition, the purpose of the study is to motivate companies to consider Poland as a part of their business strategy.

Three objectives of the study are to:

1. Examine different market entry modes, distribution channels and the characteristics of a transition economy Poland, to understand the nature of market entry strategies to specific target markets.
2. Develop a framework in order to determine the internationalization patterns and distribution channel structures.
3. Identify and illustrate through empirical study the relation of distribution channel structures to market entry modes.

The first objective of the study is to examine through literature review the factors affecting the market entry, the different market entry modes used and the most common distribution channels in the internationalization process, examined from international and logistic point of views. The characteristics of Poland are specified to understand the nature of this transition economy. The second objective is to develop a framework based on the literature review, in order to determine the internationalization patterns and distribution channel structures of case companies established in the target market. The purpose of the framework is to guide the empirical research through different phases and to describe the specific nature of the research phenomena, being not too restrictive. The third objective is to identify and illustrate the relation of market entry modes and distribution channel structures of the eight interviewed case companies, and draw conclusions from the findings.

In order to obtain the distribution channel aspect in market entry strategies, the general problem statement is formulated as follows:

What are the market entry modes of Finnish production companies established in Poland and what are the characteristics of their distribution strategies?

The research problem is formed to give answers on companies' market entry strategies based on the selection of market entry modes and distribution channels within the foreign market.

1.2 Research approach

The scope of the study is to examine from a managerial point of view the market entry strategies of case companies established in Poland. Especially the modes of market entry and characteristics of the distribution channel strategies within the target market are examined from both international and logistical perspectives. The study concentrates on the European Union market area, focusing on new EU member country Poland and the Finnish production companies established there. The physical distribution logistics and distribution cost functions are almost entirely left out from the research.

The study is formed using multiple sources of data. The theory part consists of a literature review, articles and several studies concerning the research topic. In the empirical part, the primary information source of data is a set of management interviews carried out using qualitative theme interviews on internationalization and distribution channels of companies. Another source of information are various documentations, annual reports and company publications that serve as a valuable source of verifying and integrating pieces of information gathered from interviews. Additional documentations concerning case companies and the target country Poland are used to fill the possible gaps in the primary information obtained, and to serve as value-adding sources. As some of the documentations can be found only in the polish language, it can be assumed that the information obtained from these sources adds specific nature for the study and new value for Finnish companies.

A framework that is based on theories concerning market entry modes and distribution channels, guides the empirical research with the target market aspect. The simplified framework and the multiple case studies give the ability to describe the internationalization experiences in Poland so far, answer the questions concerning market entry modes and distribution strategies, illustrate their relations, and present suggestions for further actions for Finnish companies establishing production to Poland.

The empirical part of the study is based on the qualitative research. Depending on how structured the questions are and how much the interviewer is organizing the interview situation, Eskola and Suoranta (1998, 104) divide the interviews into four types: structured, semi-structured, theme, and open interviews. A structured interview has the same set of questions in the same order for all the persons being interviewed, with a set of prepared answers. A semi-structured interview has the same set of questions, with open answers. A theme interview is even less structured and organized than the previous types. It consists of

different themes, which are all discussed without highly structured questions, in a free order. An open interview reminds of a typical conversation where not all themes or questions are being discussed. Koskinen et al. (2005, 104) divides the interviews into structured interviews, semi-structured theme interviews and deep interviews.

The empirical case study is carried out with semi-structured theme interviews of eight Finnish production companies having established local production units in Poland. The semi-structured theme interview method was chosen, because it gives the interview a form and logical order, and enables to carry out the interview as naturally as possible. A theme interview is the most used qualitative research method, especially in business economics. Properly made it is a very efficient method. It motivates also to take part in, because of the low amount of time and effort needed from the interviewee. Furthermore, a theme interview is more flexible than a structured interview, and is particularly suitable for a research representing different companies from different industries (Koskinen et al. 2005, 104).

The empirical research data obtained is processed with care. Koskinen et al. (2005, 319) divide data transcriptions into 5 levels depending on the accuracy of data needed, as presented in Table 1-1. The researcher transcribed the interviews according to level 3, to be able to obtain all the verbal data word-for-word for further quotations and overall data analysis. The additional questions were conducted by level 1, mostly because of the technical and time limitations.

Table 1-1 Transcription levels (Koskinen et al. 2005, 317)

Transcription level	Processed time/ one interview hour	Method used
Level 1: basic facts	2 hours	notes or tape recording
Level 2: main expressions	2-4 hours	tape recording
Level 3: word-for-word	6-12 hours	tape recording
Level 4-5: interaction analysis	20-80 hours	tape recording and video tape

Beside the full transcriptions of the interviews, the data is tabled for further processing. A lot of criticism from Koskinen et al. (2005, 248-249) is directed to this kind of use of quantitative statistical methods in qualitative research. Main problems concern the small sample size of cases being used, the researcher's ambiguous or even subjective analysis of the qualitative research data, as well as many technical problems related to the utilization of statistical methods. However, as Alasuutari (1999, 191-214) states, the quantitative method used in qualitative research does not have to be interpreted so strictly. It can be treated as a supporting

tabulation tool instead of a statistical analysis for interpreting the qualitative data. Tables give a practical overview of the research data. Even though the tabulation would serve only as the starting point for the qualitative interpretation without getting more deeply into the research data, it still gives a wider framework for the research data interpretation.

The analysis and interpretation of a qualitative research is a complex task, which gives specific emphasis on the importance of the assessment of the research. The concepts of validity and reliability are discussed and used to assess the adequacy of the research. The assessment criteria for qualitative research, reliability and validity, ensure the quality of the research. However, according to Koskinen et al. (2005, 253-257) these concepts should not be given too much emphasis when carrying out the research, because they are considered conservative and they might easily lead to avoiding of taking any risks during the research. However, as reliability and validity have come to stay in qualitative research and no other generally accepted concepts have been presented, they should be discussed and used as assessment criteria in the qualitative research.

Eskola and Suoranta (1998, 214) divide validity into internal and external validity. Internal validity describes the relationship between the theoretical and conceptual definitions. External validity refers to the degree of validity between the interpretations and conclusions, and the research data. In addition, it assesses the degree to which the research findings can be generalized to the other similar settings. In order to achieve high validity, the theoretical principles, conceptual definitions as well as research methods need to be in logical relation to each other. To ensure the validity of this research, the data was processed logically with the same principles throughout the whole data analysis. It is worth noticing, that different researchers might end up with different findings, even if the same ways in data analysis and conclusions were used. In addition, the lack of earlier interview experiences of the researcher has an effect on data analysis. Therefore, the empirical part of the research was conducted strongly based on the theory.

In the qualitative research the major criteria for the reliability is the researcher itself, which leads to the fact that the assessment of reliability concerns the whole research process and methods used (Eskola and Suoranta 1998, 211). Reliability appears in different ways in the methods. According to Koskinen et al. (2005, 255) reliability can be described and recognized in four ways: with congruence, accuracy, objectivity and continuity of the phenomenon. Congruence was achieved using interviews as well as other company documentations to support and complete the information gathered. Accuracy of the interviews was ensured with

additional questions, to clarify and ensure the given answers. Objectivity in the research was achieved using systematic data analysis methods based on the theory. The long time frame of companies being established in the target country ensured the continuity and similarity of the phenomenon. The amount and type of interviewed companies was sufficient to generalize the research findings.

1.3 Structure

This thesis consists of five main chapters. The research begins with a short introduction in Chapter 1, including background information about the topic, problem statement, research objectives and research approach, as well as key definitions and assessment criteria for the qualitative research. In Chapter 2, the internationalization processes with foreign market entry modes are examined through literature review, and Poland as a transition economy is discussed. In Chapter 3, the distribution channels within the target markets are examined, focusing on the channel intermediaries, structure, and factors affecting the channel choice. Based on the earlier presented literature review, finally the framework with key elements affecting the distribution channel structure selection is formed. In Chapter 4, the empirical research and analysis of eight case companies are conducted, and the findings are further examined and combined in the cross-case analysis. Finally, Chapter 5 part summarizes the conclusions concerning foundations of the theoretical frameworks and empirical findings of the research. Furthermore, the main contributions of this study are discussed and the suggestions for areas of further research are made.

1.4 Key definitions

Market entry mode is used to describe the method of how companies enter the foreign market. The methods may form a chain of different entry modes. Here the market entry modes are examined until the critical point where a company establishes its local production unit. Market entry modes are divided into export, contractual and foreign direct investment FDI modes.

The term *Central and Eastern European (CEE) countries* is used in this study to describe the 8 new EU member countries, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, the Slovak Republic and Slovenia. Most of the new EU-member countries (EU10) that joined the European Union EU in May 2004 are located in Central Europe except Cyprus and Malta, which are located in the Mediterranean area.

Transition economy is a term used to describe a country or a set of countries often located in the Central and Eastern Europe that are moving from a communistic command economy towards an open market economy. Typical features of transition economies are market liberalization, price liberalization, privatization, enterprise restructuring, and banking and financial sector reforms.

Echelon is defined as a number of actors that operate horizontally at the same level in the distribution structure and have own inventories. An echelon may consist of any type of the following intermediaries such as agents, distributors, retailers, subcontractors, own inventories and wholesalers (Inkiläinen 1998, 23).

A distribution channel is defined as the way in which goods move from the manufacturer to the end customer directly or indirectly through echelons consisting of intermediaries.

A distribution channel structure is defined here as a combination of two structural dimensions: the number of echelons describing the directness of distribution, and the degree of centralization describing the horizontal concentration of operations within the structure.

2 Foreign market entry modes

This part concentrates on examining the internationalization process, especially the internationalization factors and different modes of foreign market entry. This part answers to the question what are the internationalization factors that motivate companies to enter new markets instead of staying in their home market. Also, the factors for successful market entry are studied. Furthermore, what the different forms of market entry modes are, and from what perspectives the market entries has been studied, are presented as well. This part also focuses on Poland's market to give answers on what kind of market Poland is, what the characteristics of such country called transition economy are and how the Polish distribution structure is developed. Furthermore, the effects of the EU-membership on the development of distribution are also discussed.

2.1 Internationalization factors

The critical factors of internationalization and its success are defined. Luostarinen (1994, 7) presents factors explaining the internationalization of Finnish companies. According to a previous Finnish study conducted by Luostarinen (1979), the major growth strategy for Finnish firms has been internationalization. Internationalization factors of Finnish firms are domestic push and international pull factors, as well as company-specific advantages and environmental factors, presented in Figure 2-1. Smallness, openness and isolated location form a very high pushing force for internationalization. According to international standards, Finnish companies are considered relatively small. In many cases, smallness means limited resources, lack of experience in internationalization and a relatively weak financial standing. Pull factors such as a larger host country and openness of the market persuade and pull companies towards foreign markets. Company-specific advantages gained by Finnish firms through internationalization concern economies of scale, specialization, use of global alternatives in business operations and integration advantages in the mature stages of internationalization. An enabling environment, the EU for example, improves the possibilities for international expansion for companies.

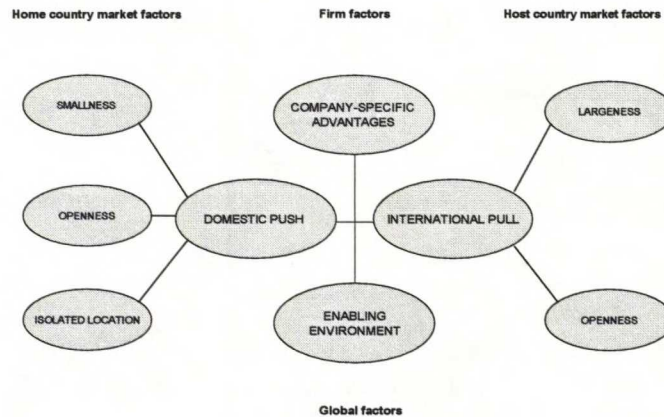


Figure 2-1 Push and pull factors in internationalization of Finnish firms (Luostarinen 1994, 7)

Internationalization motives of Finnish companies to the Baltic States during 1987-2004 were published lately in the study of Center for Markets in Transition CEMAT (2005). The main internationalization motives of Finnish production companies to the Baltic States were low production costs, and for Finnish market oriented retail business the market and consumption growth. Secondary motives for market entry to the Baltics included close geographical location, logistic and administrative smoothness, similarity in languages and cultures, attractive taxation, privatization programs and easy internationalization process for small companies. Even though the motives during the years have partly changed, the Finnish business operations in the Baltics have continuously been increasing. It has not been unusual that companies seeking for low production costs have later on also realized the growth potential in the foreign market.

To succeed in the internationalization process, Finnish companies should use their technology and know-how as a competitive advantage in their internationalization, and focus on niche markets (Luostarinen 1994, 25). In these niche areas such relatively small companies are safe from the fierce competition of large enterprises. Finnish companies with limited resources and lack of internationalization experience, Finnish companies should look for “light” entry modes with low risk and low financial involvements.

Success in the internationalization depends on the right choice of market entry mode (Root, 1987) and factors related to the distribution channels (West, 1990). Root (1987) lists a wide range of external (target country) and internal (company) factors influencing the market entry mode decision. The most important external target country factors influencing the choice of

foreign market entry mode are factors such as market size and growth prospects, environmental factors (PEST), production factors (availability, quality and costs of materials and labor, economic infrastructure) and home country factors (market, production, competitive and environmental conditions). Internal company specific factors affecting the market entry mode choice are product factors (differentiation, service level) and company resources with commitment factors (management, capital and technology resources, commitment to international business).

West (1990, 73-75) defines five main critical factors affecting the distribution channel decision-making outside the national boundaries; namely costs, local environment, control, currency and communication. The distribution costs as well as packaging costs increase as the distances for exporting goods grow. Cross-border exporting also increases administration costs and documentation requirements. In addition, more capital is required both for the shipments and for carrying higher inventory levels, especially when dealing with long and time consuming distances. The legal environment, legal constraints and local business practices of the target country may effectively determine the structure of distribution system, being completely different from the one in the home market. The supplier's control over distribution is more limited than in the home market because of the combined effect of distance and local market structures. The differing currencies within the international distribution channel need paying more attention to the payment operations. Also, the effective communication between the supplier and customer may suffer from long distances.

2.2 Market entry modes

The approach for internationalization is focused on market entry modes and their ownership structures, from the manufacturing company point of view. This approach examines the sequence from export to foreign production, with emphasis on the foreign direct investments. The decision of how the company enters a foreign market can have significant impact on the success of internationalization and the future development of the company. There are several approaches for foreign market entry modes examined through different perspectives. Expansion into foreign markets can be achieved through export, contractual, and investment entry modes. According to Stern (1992, 568) these entry modes differ considerably in their level of control, resource commitment and risk. The basic market entry modes and their ownership structures will be examined through different perspectives in the following part.

The main market entry modes can be divided into export, contractual, and investment entry

modes, according to Luostarinen and Welch (1993), Stern and El-Ansary (1996). Furthermore, Rosenbloom (2004, 514) adds to this approach the perspective of the production origin, where export modes are based on home country production, contractual and investment entry modes on foreign production. These main market entry modes are presented in Figure 2-2.

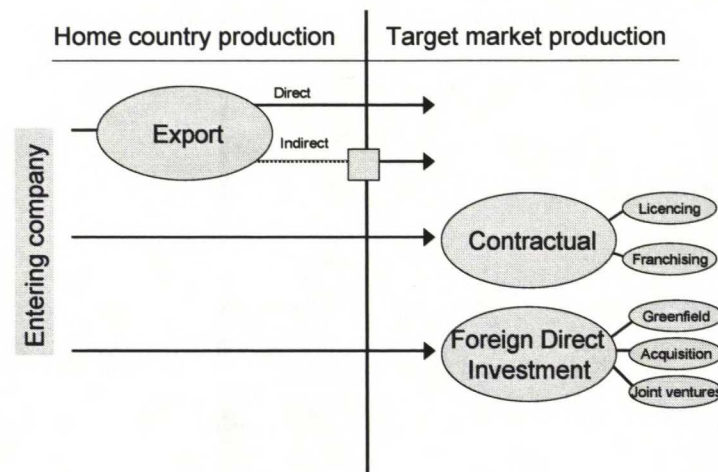


Figure 2-2 Market entry modes

Export means marketing and sales of home country-manufactured goods to a foreign country. Export forms are either indirect export or direct export. According to Rosenbloom (2004, 514) in indirect export the company's products are exported through different middlemen, without any active involvement of the company in the exporting activities. Instead, another company located in the home or target country undertakes the operations. The company may be a domestic trading company, joint export organization or couple of firms performing in co-operation export or import activities. According to Luostarinen (1993, 20) indirect export offers export knowledge with low risk for a small company with limited resources and knowledge. However, indirect export itself is costly, blocks the information flow in the exporting chain and is considered the most inactive mode of doing business abroad.

Direct export instead, is defined as an operation where the producing firm itself is directly involved in exporting. In direct export the firm can export through foreign distributors or agents, or set up sales branch or sales subsidiary in the target market (Luostarinen 1993, 157). Also the definition of direct export applies in the situations when firm exports directly to end customers without any middlemen. Direct export is faster, more direct than indirect export,

and it increases the market knowledge of the exporting firm. However, this mode compared to indirect export demands much more international business knowledge, greater financial resources and it may become very expensive if the amount of middlemen increases too much.

In the contractual entry modes such as licensing and franchising, the production of goods happens in the target country. Luostarinen (1993, 32) defines licensing as a contractual mode of international business operations, in which the company permits another company in the target country to use the property of the licensor, mostly intangible assets such as trademarks, patents or production techniques. The licensee pays a fee for the company in exchange for the rights to use the licensor's property. For the licensor this foreign operation mode means low risk, investment and commitment levels, as there are no foreign direct investment risks, no export difficulties such as trade barriers, and no distribution problems or costs. Licensing can be seen as an attractive starting point and an alternative market entry mode for export. However, research conducted by Luostarinen (1989, 123) shows that among Finnish companies export has been the previous operation mode instead of licensing. Even though licensing seems to possess considerable advantages as an internationalization mode, licensing tends to be chosen for secondary reasons, that are mostly related to trade barriers or risk involved in foreign investment. Disadvantages of licensing concern the low control on licensees and risk of creating a future competitor. Licensees are difficult to control, as the commitment level of the licensor is low in this mode. As the patents and technical know-how form the core of the licensing, there is a risk that the know-how on technology that creates the competitive advantage will be exposed. Therefore, it is recommended to license a technology that is already in the late development of its technology life cycle.

Franchising is the other contractual mode of international business operations. Even though both licensing and franchising include strong technology transfers, franchising has developed more towards standardized marketing oriented concept than licensing. In addition, it tends to bring greater involvement and control to the business operation performed. Luostarinen (1993, 72) divides franchising into service, industrial and distribution types. Especially distribution franchising has enabled the manufacturing companies (ex. clothing business) to establish vast international distribution networks. The attractive features of this market entry mode for both franchisor and franchisee have ensured its growing interest in the foreseeable future. However, there is wide range of potential problems and requirements in the international franchising, which does not make this internationalization method the most simple entry mode as it looks at first glance. Furthermore, Buckley and Casson (1998, 556)

do not consider contractual production modes in general as very attractive market entry modes. This is because contract manufacturing is of a short-term nature, and it does not improve the foreign market knowledge of the company entering the market. However, the reason for using contract manufacturing is the access to local resources, often with considerably lower production costs.

Foreign direct investment entry modes are divided into greenfield investment, acquisitions and joint ventures depending on the type of investment and share of ownership. According to Luostarinen (1993, 156) foreign direct investment FDI means direct ownership of facilities in the target country, where the investor takes part in the management and control of these facilities on the basis of investment made. FDI can be carried out establishing the new subsidiary from scratch as greenfield investment or through acquisition of existing company. Through joint ventures the home company can have different share of ownership and control in existing companies. This classification is shown in Figure 2-3.

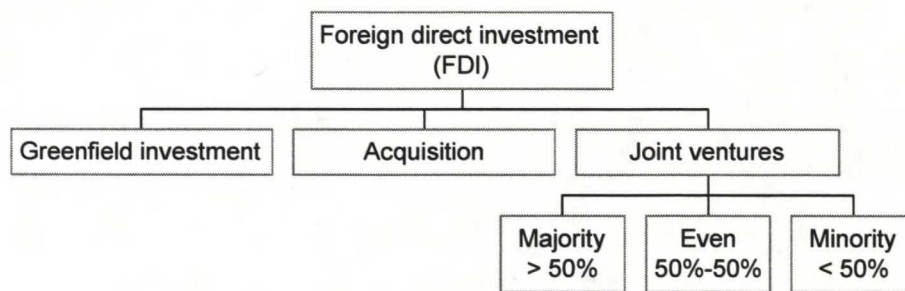


Figure 2-3 Different ownerships of FDI

Greenfield investment means building a unit from a scratch compared to an acquisition and joint ventures, which refer to buying out an existing company. Luostarinen (1993, 157&162) clarifies, that in both cases the subsidiaries formed through these modes are 100% fully owned by a mother company. Further, joint ventures form a majority, even 50/50, or minority ventures depending on the share of ownership (share of equity), joint ventures are partially owned by parent company and by one or more other companies or partners, where these firms share the investment and risk of the owned company (Stern et al. 1992, 542).

2.3 Greenfield investment vs. company acquisition

Market entry modes with production in the target market are contractual modes and FDI modes. However, as the FDI is more favored as a market entry mode for establishing local production than the contractual entry modes, the following part will concentrate on examining the FDI modes. Previous empirical studies on the FDI entry modes have focused on

examining the differences mainly between the greenfield investment and acquisition, leaving the joint ventures to less attention. In addition, relatively little research has examined the Central and Eastern European (CEE) transition economies, not to mention Poland, in terms of the choice between greenfield investment of acquisition as market entry mode.

Luostarinen (1993, 164-166) focuses on analyzing advantages and disadvantages of greenfield investments and acquisitions. Greenfield investment as a market entry mode is often more time consuming and a more difficult option to establish than the acquisition, as it means building a unit from scratch. However, greenfield investment is often taken if there are no attractive acquisition targets available. In addition, if sufficient technology cannot be found from existing acquisitions available or the technology is company's competitive edge, an own unit is built. Greenfield investment is also favored in cases when the unit is desired to be established geographically in a particular area, for example close to the market place or raw-material sources. However, a company acquisition has many advantages as a foreign market entry mode. The business establishing time is shorter when the critical functions of the company already exist. In addition, existing personnel, distribution and sales channels, as well as the customer base with a market share gives a competitive advantage compared to the greenfield investment. Also the investment is considered to pay back and reach the break-even point faster than the greenfield investment. However, risks of this acquisition mode can be considerable. Integrating two separate companies can create risks and may turn into unprofitable acquisitions. There may appear difficulties in finding good acquisition targets, which in addition may not be readily available, for example because of uncompleted privatizations.

According to Muller (200, 3-5) several previous empirical studies on market entry modes to CEE countries reveal, that greenfield investment is often chosen instead of acquisition. For example, Meyer (1998) studied the entry to the CEE countries, and surprisingly found out that market entry to fast-growing markets was rather accomplished via wholly owned greenfield investments than through acquisition. This is contrary to the well-known argument that fast entry to fast-growing markets can only be achieved through acquisition. One explanation might be that the CEE countries lack attractive acquisition targets in those industry fields where the greenfield investment was carried out. Similarly Estrin et al. (1997) in Muller (2000, 3) focused on the specific conditions in transition economies. They empirically analyzed the choices of ownership form and market entry mode in the CEE countries. The research revealed that most of the examined multinational enterprises aimed to achieve 100%

ownership, either through a greenfield investment or company acquisition. Muller (2000, 5) quantified that greenfield investment is the optimal market entry mode only if the technological gap between the companies is sufficiently large. In other words, if a company's production technology were very specific compared to the technology of an acquisition target, greenfield investment would be considered better alternative in terms of lower adaptation costs than the acquisition.

Buckley and Casson (1998, 556) instead mention that the market structure and strength of competition have a crucial impact on the decision of various market entry modes. Market entry through greenfield investment increases local capacity and intensifies competition, while the acquisition mode does not. The existence of a high cost of competition associated with high monopoly rents favors acquisition as it enables better control on rival's production facilities and distribution channels. On the other hand, high adaptation costs of implementing a specific production technology discourages acquisition and favors greenfield investment.

2.4 Different approach to market entry research

Market entry modes have been studied extensively from the perspectives of many countries (Buckley and Gordon, 1994), or between certain countries (CEMAT, 2005) or focusing on one particular market (Wheeler et al. 1994, Luostarinen 1993).

From the perspective of many countries, Buckley and Gordon (1994) examined different entry modes of companies in developed countries such as UK, USA, Germany, Netherlands, France and Sweden through the total foreign sales (TFS) consisting of exports (X), sales from direct investment (I) and licensed sales (L), by country and industry sector. The data was collected in late 80's from different national and international trade statistics. This research on total foreign sales $TFS=X+I+L$ resulted in that all countries were strongly export-oriented, with FDI ranging between 16 to 40%, and licensed sales being 0 to 7%. In other words, export was the most common market entry form with the minimum foreign involvement, followed with high capital involvement of FDI to establish foreign manufacturing. Buckley and Gordon (1994) found that there are differences in market entry strategies between firms of different nationalities even when they are operating in the same industry sector and same target market. According to evident changes in strategies during the research time period, the global nature of competition forces firms to readjust their strategies constantly.

Market entry modes from one particular country to another country have been examined by

Center for Markets in Transition CEMAT (2005, 58-93). The research examined in a long timeframe internationalization of Finnish companies to the Baltic States during years 1987-2004, with main focus on Estonia. 30 interviewed Finnish companies established their local operations usually with low risk and low resource commitment. Most Finnish companies have entered the Estonian market through joint ventures. Market oriented companies have often started with exporting, while production companies have often started their market entry through subcontracting, keeping the risks low. Subcontracting has enabled to increase the market knowledge and examine subcontractor's capacity and quality levels. Later on, the subcontractor has been replaced with own production facilities or Finnish company has bought out the subcontractor, to increase the delivery certainty. Challenges in acquired production companies in Estonia have resulted from old local company management, poor acceptance of ex-patriots, a strong will to act independently but without taking responsibility in decisions. In most cases, the old company management has been changed to a younger and more flexible management. The attitude towards ex-patriots has been negative, sometimes even strongly protested in the beginning.

Another perspective in market entry research is to focus on one country, and examine the market entry patterns of the particular country. Market entry processes can develop into a chain of different modes over time. Entry modes can create a wide range of potential paths that firm might take in its internationalization process. Luostarinen (1993, 256) presents an internationalization pattern, where examining these entry chains on a company level can be summarized into a country level pattern, shown in Figure 2-4. However, this pattern does not show the share of ownership of the production subsidiaries established in the target market.

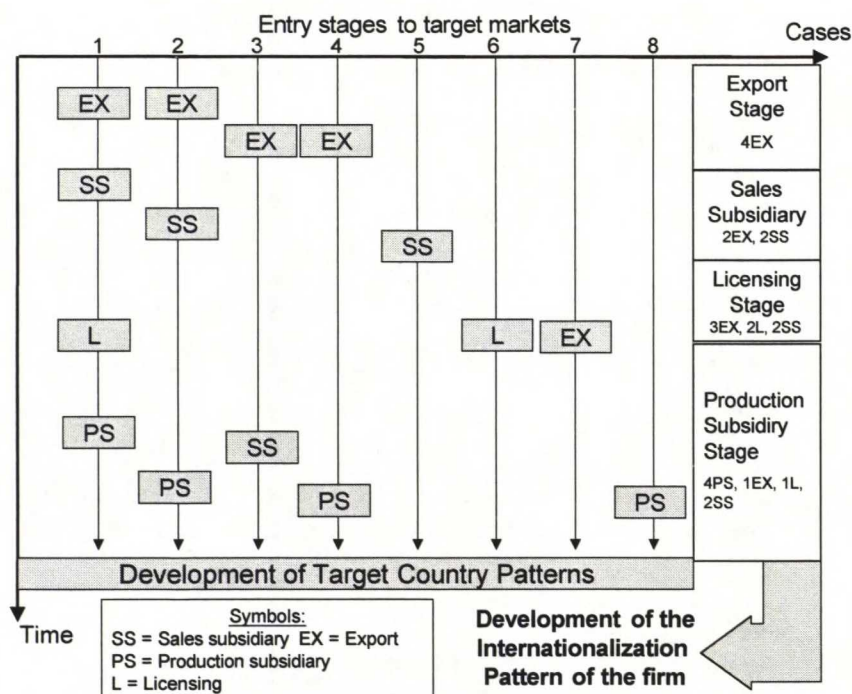


Figure 2-4 Development of internationalization pattern of the firm (Luostarinen 1993)

A wide range of Finnish research reveals similarities in the internationalization paths of Finnish companies to different countries. A common establishment of Finnish subsidiaries abroad has begun with light entry modes, following more advanced entry modes. The most common internationalization patterns have been exports – sales - production subsidiaries (Vesa 1982, Larimo 1987, Luostarinen 1989 in Luostarinen 1993, 259-260).

Wheeler et al. (1996) has also examined from a country-level perspective the UK machine tool industry tending to emphasize the diversity of market entry modes and channels of distribution. The UK machine tool industry is highly cyclical, primarily export-oriented without evidence on foreign production in this country, with mainly small and medium-sized manufacturers, operating in a very niche market. The foreign market entry is performed using agents or distributors, using direct selling methods or establishing sales subsidiaries. Earlier research data was replenished in 1993 by theme interviews on 14 agents/distributors and 14 sales subsidiaries, investigating the dynamics of import distribution channels. Wheeler et al. (1996) described the evolution of these agents/distributors and sales subsidiaries as market entry modes as follows.

The foundation of agent/distributors was typically started as a spin-off from existing machine tool importers or manufacturers. In other words, individuals or groups of individuals, who had been working previously in other companies of this industry, started up their own

machine tool enterprise. Another foundation type was a result of an acquisition activity involving the previous parent company. In these cases most often the foundation was because the previous parent company wanted to concentrate on its core business, selling the subsidiary.

The foundation of sales subsidiaries happened mainly through the takeover of former agent/distributor in the UK, or by replacing the agent/distributor by a sales subsidiary. In the first type the exporters acquired agents based on defensive motives, or wanted to get closer the customer, provide better customer service and obtain information. In the other form, the agency relationships were abandoned and the foreign manufacturer established a sales subsidiary in the UK, with the desire to obtain greater commitment and resources in marketing its machine tools in the UK.

Takeover of agents/distributors most often occurred either to increase the penetration of the UK market, create an efficient, integrated vertical distribution channel or with the desire to access an existing distribution network and to obtain knowledge on the market. In some cases the takeover also resulted in personnel leaving the organization.

As a conclusion, Wheeler et al. (1996) distinguished four patterns in the market entry and channels of distribution in the machine tool industry, illustrated and listed in Figure 2-5.

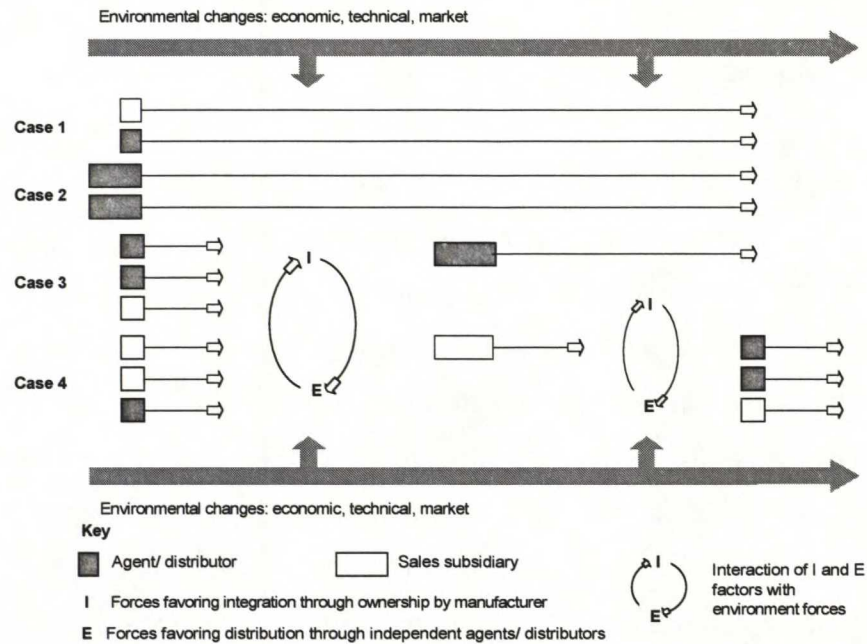


Figure 2-5 Patterns in the market entry modes and channels of distribution in the machine tool industry (Wheeler et al. 1996, 52)

1. **Only agent/distributor:** protects unique assets such as technology or know-how, the market is fragmented, machines are standardized with mature technology, competition is high and there are no conditions for economies of scale
2. **Only subsidiary:** protects unique competence, chances for economies of scale in distribution
3. **From agent/distributor to sales subsidiary:** experimental knowledge increases the willingness to subsidiary establishment, with desire to increase market share, to be near the customer and to have control on the distribution channel
4. **From agent/distributor to sales subsidiary, back to agent/distributor:** Wheeler et al. (1996) present the establishment of a sales subsidiary as a proactive strategic move into a market, where rapid and deep market penetration, control on distribution channel and strengthening the competition position in the channel are gained. The pattern is described as follows. A foreign manufacturer entering the market usually first introduces its products through a local agent/distributor. To increase market penetration, market knowledge and create an exclusive channel with own control, the manufacturer often buys out the agent/distributor. As the subsidiary grows, costs increase. Since by this time the manufacturer has gained the control over the distribution channels and owns developed market knowledge, it is possible to re-establish the subsidiary as an independent agent/distributor.

2.5 The Polish market

Since Poland as well as many of the new EU-members (EU-10) are transition economies from Central and Eastern Europe, not all western theories and frameworks as such can be applicable without examining the history and nature of this country in transition. After the collapse of communism in 1989, a number of these new EU- member countries has managed to increase their political stability, sustain economic growth, and increase their attractiveness in western countries. According to Luostarinen (1994, 38) Finnish internationalization patterns can be easily adjusted to economies in transition because of the advantages such as close location, historical connections, and good relations during communism with these countries. However, crime, corruption and inequality are features that still partly exist in many of these former communistic countries (Mercado et al. 2001, 248-249). Therefore the internationalization patterns cannot be adjusted without examining the specific country in transition.

The following part describes the typical features of transition economies including Poland. In addition, the heterogeneous nature of the EU is examined, following the development of Polish distribution structures and the impacts of EU's enlargement.

2.5.1 Poland as a transition economy

Most of the transition economy countries are located in the Central and Eastern Europe (CEE). Despite of the historical reference to former 'Eastern Bloc', the CEE is not a homogenous area and these countries with various speed of development should be examined individually. However, there are some features presented that enable us to describe the nature of these transition economies in a broader way. Mercado et al. (2001, 258) define "transition" as the movement from a communistic command economy to an open market economy that creates new logistic systems in terms of developing and allocating resources. Typical features of transition economies acting as push-factors are market liberalization, price liberalization, privatization, enterprise restructuring, and banking and financial sector reforms. In the following, these features will be examined in general as well as on a country level, focusing on Poland.

The development of transition economies from the undeveloped, stagnant markets towards developed markets affected by push-factors is illustrated in Figure 2-6. The rate of the market development variable describes the improvement of the transition economies, as they move towards developed markets. The PEST variable describes the political, economical,

sociological and technological environment stability i.e. Markets with low stability have relatively risky environment, whereas markets with high stability have lower risks in their PEST environment.

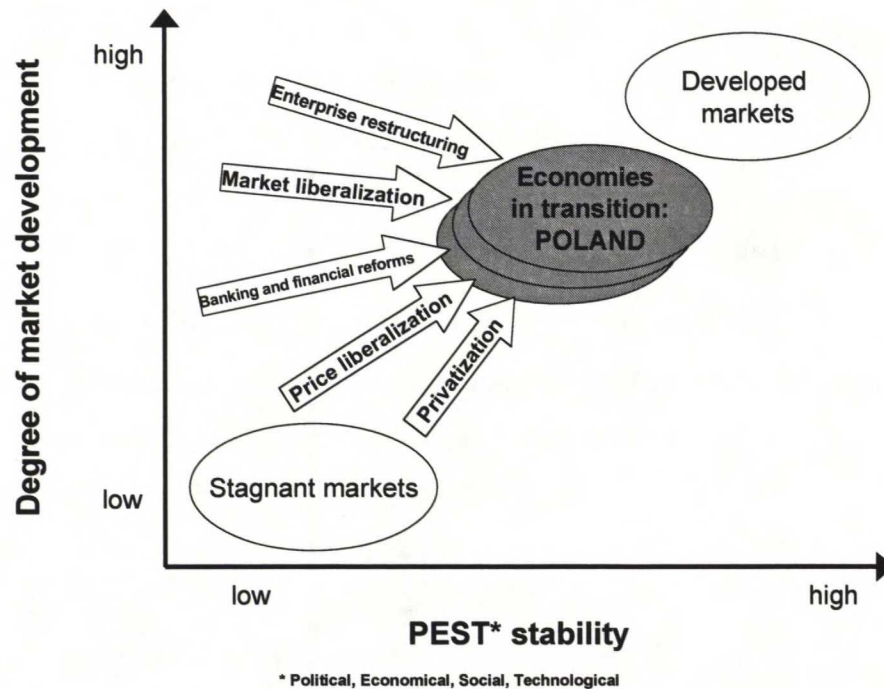


Figure 2-6 Push-factors of transition economy Poland

Market liberalization, the move from command economy to an open market economy, involved removing legal restrictions of markets and establishing private enterprises. This liberalization process was carried out in various ways and at different speeds among the transition economies. In Poland during communism, prices and outputs were tightly controlled, foreign economy was limited and foreign ownership of enterprises was strictly forbidden. Lack of investments in transport infrastructure reflected in production problems and bottlenecks, as well as in distribution of goods. Empty stores, food queues and rationing described the poor times of the country. According to Mercado et al. (2001, 259) market liberalization was also strongly related to macroeconomic stabilization with stabilization programs aiming to slower the inflation and to balance government expenses. In the early years of economic reforms in Poland these actions could be seen in increases of taxes, reduction in subsidies as well as in other cuts in government expenses. Typical features left from the communist era for nearly all current EU-10 countries were over-employment, unstable inflation, large budgetary deficits and huge debts.

Price liberalization speeded up enormously the inflation. In the early years of reform, the removal of price controls caused enormous inflationary pressures. After the outbreak of market liberalization, the prices of goods exploded affecting huge peaks in annual inflation rates, even over 1000% in Estonia (1992) and Bulgaria (1997). In Poland the highest annual inflation peak reached 585,8% in the year 1990, because of the transformation from socialistic economy towards open market economy, starting in 1989. Even though the inflation rate of EU-10 countries is still higher than in the rest of the EU members, the control of inflation according to statistics has improved in recent years. The primary reason for higher inflation is considered to be the rapid growth of real wages (Mercado et al. 2001, 261).

Privatization is considered to play a remarkable role in the economic development of countries in transition. According to Mercado et al. (2001, 261) privatizations improve state budgets, enable the restructuring of ownership, and bring western investment capital with technology and know-how. The privatization process in EU-10 transition economies is considered rather a mix of different forms of privatization depending on the country than a single universal pattern. Even though Poland's small privatizations have been carried out smoothly and successfully, the large-scale privatization programs have not proceeded in a desirable time frame (Ziljstra 1998 in Mercado et al. 2001, 263).

Blaszczyk (1999, 18-23) specifies that privatization is almost completed in the consumer goods and service sectors, and mostly untouched in large, politically sensitive, mostly public sectors including mining, gas, transportation and communication. From the start of the privatization process in 1990 until 1998, 72.6% of total 8441 state owned enterprises were privatized wholly or partially. However, some 2000 state-owned companies have never been even included in the process, among them Poland's 50 biggest enterprises belonging to the public sector. In Poland the importance of privatization according to Blaszczyk (1999, 18) was not understood and therefore it was inefficiently carried out until recent years. Governments realized that privatization revenues have become crucial for implementing the new pension system and other programs, and need to be actively pushed ahead. Poland's privatization methods so far are described as case-by-case tailored, time-consuming processes with different types of ownerships, instead of massive and quick privatization schemes. One initiative for large-scale privatizations was the NIF (National Investment Fund program). Even though NIF accelerated the privatization, the coverage has been only limited and the performance of companies following this privatization method has systematically worsened. However, the future of Poland's privatization can be seen rather positive. According to a

country-specific index of Economic Freedom (Miles et al. 2006), Poland's privatization accelerated during the year 2004, with several major companies going public in 2005. The country's economic growth attracts more foreign investors, governments finally understand the importance of privatization and new privatization programs can be carried out with higher experience.

Successful enterprise restructuring depends on privatization and its supporting laws, competition and the nature of financial constraints (Mercado et al. 2000, 265). Privatization laws together with anti-monopoly laws have been implemented at least in the EU-10 countries. Competitive pressures from foreign as well as domestic firms have played an important role in encouraging the enterprises for restructuring. When speaking about financial constraints, the elimination of subsidies have accelerated the restructuring of enterprises, and eliminated the unprofitable firms without future. In Poland, these tough budget constraints and elimination of subsidies forced many companies to diminish their assets or personnel, as the banks in 1992 weakened the lending terms for unprofitable enterprises.

The banking and financial sector reforms are important for the development of the market economy. The old banking and financing systems have to be modernized to meet especially the EU forms, to attract savings, to create links between investors and savers, to lend to creditworthy customer, and to provide a safe and clear system. The banking sector in Poland has been open and competitive since 2005, and almost fully privatized. According to Miles et al. (2006), in 2004 the government partially privatized its two last major banks PKO Bank Polski (PKO BP) and Bank Gospodarki Zywnosciowej (BGZ). In 2003 of the 75 commercial banks foreign investors controlled 45. Also interesting is, that the Polish banking sector has a high degree of consolidation, where the 11 largest banks held 75% of all banking sector assets in the same year.

2.5.2 Development of distribution

The distribution in Poland has been changing rapidly from decentralized towards centralized structures, from the large amount of small companies towards more polarized business sectors. The distribution in Poland was dramatically changed after 1990, when the almost wholly controlled market started to transform towards a free market. A high amount of small, private firms were established and everybody was trying to start their own small company. This highly fragmented distribution of goods resulted in high logistic costs and low efficiency in the distribution channels. The distribution systems can be described as inflexible, with long

lead-times, high inventory levels as well as a low customer service level, and where the technological level was dragging approximately 20 to 25 years behind the western countries' technological development. However, the distribution structures started to change during the 90's, when large western consortiums started to enter the Polish market, building own centralized distribution structures with high technology and modern principles in managing distribution. The rather primitive and small companies had to slowly give way for the big western companies conquering the Polish wholesale and retail markets. These tendencies could be seen particularly in the dynamically developing market of mass consumption products. The further consolidation of the wholesale market and gradual increase in the purchasing power can be expected in the future as well. Even though Poland is considered as a quite mature market, it possesses growth potential in many fields (Rutkowski 2005, 43-44).

3 Distribution channels within target market

Companies entering new markets start often from a scratch in distribution, marketing and sales. Since entry markets have national regulations and local intermediaries, companies have to co-operate with the local distributors to benefit from the expertise and knowledge in their own markets (Arnold, 2000). From an international and especially logistics point of view, the essential strategic questions are how various products can be delivered to customers in foreign markets, should they be delivered using direct or indirect distribution channels, what intermediaries to use, and which distribution structures are best suitable for the product types being delivered. Therefore, this chapter aims to describe the distribution channels, intermediaries, and the structure of distribution channels. It also examines the effects of product types on the channel structure, as well as factors affecting the channel choice.

3.1 Different channel aspects

There are different definitions for this route taken by a product as it moves from the producer to the customer. Distribution channels, marketing channels or sales channels include basically the same phases from production to the final customer, however, from various perspectives. The literature reviewed on these topics did not reveal clearly the differences between the definitions, as there are many similarities that are emphasized in different ways. However, it can be stated that the distribution channels focus more on the physical movements of the product, whereas marketing and sales channels focus more on the product awareness, customer needs and sales processes. Figure 3-1 illustrates the relations between distribution, marketing and sales channel aspects.



Figure 3-1 Relations between different channel aspects

West (1989, 26) defines a distribution channel as the way in which goods move from supplier to end user, directly with immediate contact with the customer or indirectly through intermediaries. Each distribution channel, direct or indirect, involves not only the physical movement of goods but also an information flow. Manufacturers inform channel members about the product availability while they in return supply information about the product's performance. A distribution channel can be also defined as the set of all units involved in transferring the product, given by Anderson and Coughlan (1987, 76). Here some units perform the selling function, some concentrate on warehousing, transporting and extending credit.

The international perspective for the distribution channels should also be taken under examination especially when dealing with the internationalization of a firm. Arnold's (2000) previous research on eight corporations in the consumer, industrial and service sectors, that have entered almost 250 new country-markets, reveals that multinational companies entering developing countries have to work with local distributors to succeed in the market. However, many companies fail in the partnerships with local distributors in these emerging markets. As a finding from the study, multinationals have three critical objectives on international distributors. Firstly, they want to control their business expansion at a strategic level. Secondly, the partnership with local distributors is aimed at least for the first years, to benefit from the expertise on local markets. In addition, companies want to minimize costs and risks when entering new markets. However, finding balance among these objectives is challenging.

Rosenbloom (2003, 156) examines the role of distribution channels as value-adding systems through Porter's (1985) value chain (Figure 3-2). Porter (1985) has identified a set of primary and support activities through which firms can create competitive advantage. Distribution is linked to many of these. The goal of primary value-chain activities is to create value for the product or service provided, exceeding the costs and thus generating a profit margin. Inbound logistics focus on bringing input materials into the firm, operations focus on transforming the inputs into final products, outbound logistics concentrate on delivering the products to customers. Marketing and sales are activities focusing on getting customers to buy the products, and service activities maintain and enhance the product's value with customer support, repairing etc. Support activities such as infrastructure, human resource management, technology development and procurement are processes that facilitate the primary activities. What is clear, the distribution is linked to many of these activities. Referring to Rosenbloom

(2003, 156), distribution is closely linked to at least four primary activities (inbound logistics, outbound logistics, marketing and sales, and service) as well as to support activities (technology development and procurement).

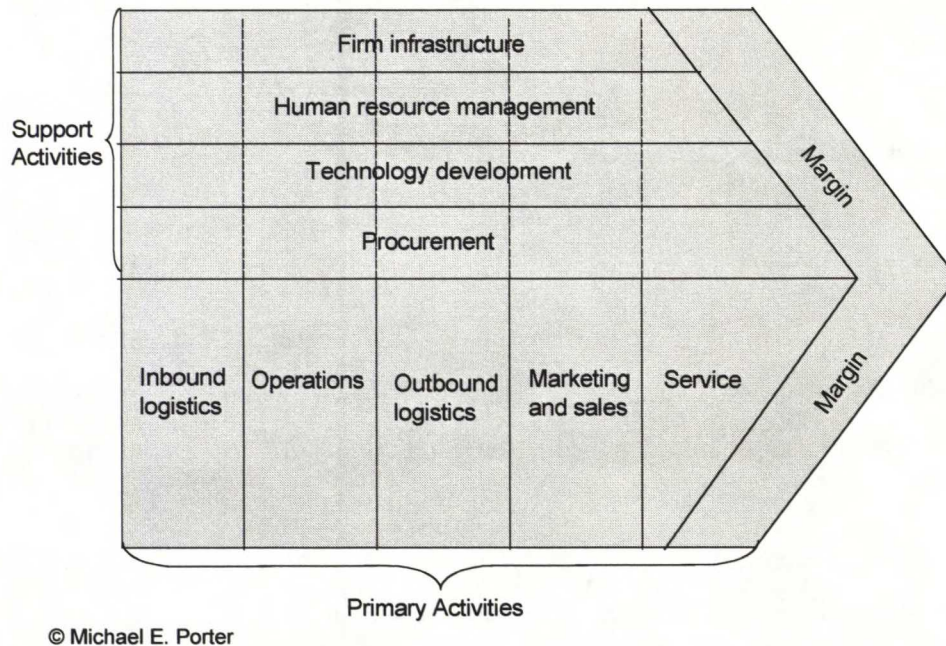


Figure 3-2 The value chain (Porter 1985)

According to Gabrielsson (1999, 21) sales channels are seen to include all intermediaries participating in the negotiations related to sales, whereas marketing channels are seen as a wider concept, covering advertising, sales promotion and publicity. Production and assembly of products are related in sales channel context only, if the channel members are involved some how with those activities. Generally speaking, the definition of the sales channels (with some limitations) is consistent with the definition of marketing channels (Stern, El-Ansary and Brown 1989 in Gabrielsson 1999):

“Marketing channels can be viewed as sets of interdependent organizations involved in the process of making a product or service available for use or consumption. Not only do marketing channels satisfy demand... but they also stimulate demand by the promotional activities by the units composing them.”

From the marketing mix perspective Rosenbloom (2004, 8) defines a marketing channel as a distribution (place) variable of the marketing mix 4P's price, product, promotion and place. The need to reduce distribution costs in a company's operations is one of the main reasons

that have increased the emphasis on the marketing channels in the marketing mix. From the managerial decision-making point, primarily in producing and manufacturing firms, Rosenbloom (2004, 153-156) defines the marketing channel as "the external contractual organization that management operates to achieve its distribution objectives". If the achievements of distribution objectives are crucial for the company, then they should be considered as a part formulated into the firm's overall objectives and strategies, as distribution strategy.

3.2 Distribution channel intermediaries

Each company has to decide whether to design their distribution structure with or without intermediaries. Juneja (1999, 37) clarifies that the differences between the needs of the manufacturer and the demand of the end customer often create differences and disagreements in the distribution channels, called gaps. These gaps can be time, geographical, quantity, variety or information gaps. Existence of these gaps creates a need for intermediaries, which can fill the gaps by creating value by ensuring to distribute the right product, in the right quantity, in the right conditions, to the right place, at the right time, for the right customer with right costs. Furthermore, the factors influencing the choice on the intermediary are costs, product type, control, coverage and synergy (Juneja 1999, 35). Main intermediary types to reach the final customer given by West (1989, 31) include agents and distributors, retailers, subcontractors (franchisees or licensees), wholesalers, mail order firms, manufacturer's sales representatives. The main characteristics of these intermediaries are summarized in the following.

Agents and distributors are intermediaries with a contractual relationship with one or more manufacturers, specialized in distributing products in a particular geographical area. The level of commitment among agents varies from commission agents to full service agents or product dealers. Retailers are intermediaries that sell directly, are normally independent of the manufacturer and vary considerably in size and specialization. Subcontractors such as franchisees or licensees have become extremely popular intermediaries for rapid expansion, where independently owned companies enter into a close contractual relationship with the manufacturer to produce and distribute a specific product or service within the foreign market. Wholesalers are independent intermediaries, acting as stockholders or distributors of the goods to end customer. Wholesalers profit from the difference between the buying price from the manufacturer and the selling price for the customer. Wholesalers differ as to the type of

product ranges offered, and the degree of market coverage. Mail order operators are very important intermediaries as well, especially in the Internet era where more and more products are sold via the Internet. Manufacturer's sales representatives either related to export operations or in FDI investments serve as one type of intermediaries for product distribution as well (West 1989, 31-32). Intermediaries are illustrated together with market entry modes in Figure 3-3.

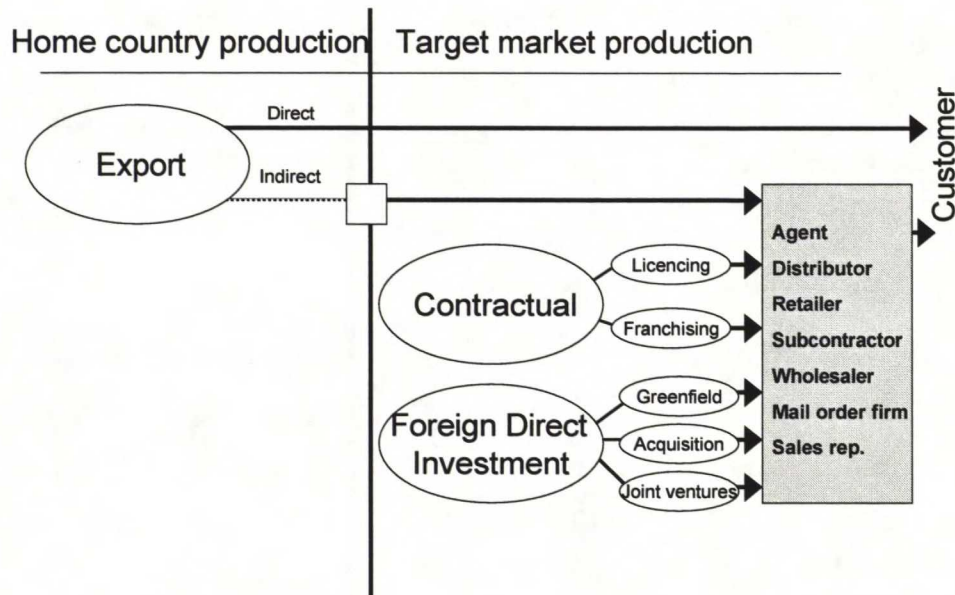


Figure 3-3 Market entry modes with distribution channel intermediaries

Generally, the advantages of intermediaries according to West (1989, 28) are concentrated on helping the company to widen its market coverage, gaining acceptance for the product in the market, and assisting the company in improving market knowledge. Furthermore, the advantages concern also offering local sales promotion and advertising, product testing and development. Intermediaries also facilitate the bureaucratic work, provide local buffer stock, which copes with fluctuations to and within the market, and reduce distribution costs as the products can be shipped in bulks. Intermediaries can also take the responsibility of setting and controlling the prices, especially if the manufacturer is distant from the market.

However, there are disadvantages involved in intermediaries as well. Intermediaries are usually independent players with their own profitability criteria. This may have negative influence on the manufacturer's product pricing and profitability. In addition, intermediaries handle a wide range of other competitors' products, concentrating on those, which are most

immediately profitable. This may lead to the inefficient, passive selling of the certain producer's products. Use of intermediaries decreases control over the distribution channel and reduces and filters the information flow for downstream suppliers (also West 1989).

There are several problems highlighted by Stern and El-Ansary (1992, 563) for companies establishing marketing, sales or distribution channels in the target country. Sometimes it is not easy to find suitable middlemen providing adequate distribution, careless selection of middlemen can have negative impact on the company performance, access to channels may be locked because of politics enabling for example cartels or trade associations closing certain channels, the motivation of middlemen requires a high interest and budget from the manufacturing company. Also controlling foreign middlemen is often more complicated than in home country.

3.3 Directness of distribution channels

Each company has to decide on the channel directness, whether to design direct distribution structures without intermediaries, or indirect distribution channels using intermediaries. Channel directness is examined through several product-related criteria (West 1989), and ownership and control (Anderson and Coughlan 1987). The basic trade-off between the own integrated direct distribution and indirect distribution through intermediaries is that intermediaries are usually independent players with less control, not always acting according to the manufacturer's needs.

West (1989, 31) has listed some decision-making criteria in Table 3-1 that can be used as general indicators in choosing between indirect or direct distribution channel structures. These product and service related criteria are not definitive as they rather help in choosing the most suitable distribution structure. For example, if the product is complex, the indirect distribution is not considered to provide essential expertise with reasonable costs.

Table 3-1 Decision making criteria on direct vs. indirect distribution channels (West 1989)

Decision making criteria	High	Low
Geographical concentration	Direct	Indirect
Number of buyers	Indirect	Direct
Complexity	Direct	Indirect
Unit price	Direct	Indirect
Standardization	Indirect	Direct
Servicing requirements	Direct	Indirect
Price negotiation	Direct	Indirect
Sales information	Direct	Indirect
Frequency of purchase	Indirect	Direct
Perishableness	Direct	Indirect

Anderson and Coughlan (1987) examine the international market entry via independent or integrated distribution channels, with a different amount of ownership and control over the distribution channel. The main question in the study is whether the product introduced to foreign market should be distributed via company-owned distribution channel (make), or whether it is more efficient to contract distribution to an independent organization (buy).

In integrated channels products are distributed via company-owned distribution channels. In this structure the manufacturer has more control on products, and high ownership gives the entering company more control over its international distribution channels. However, ownership also brings responsibility, commitment and increases risks. In independent channels, an independent organization is contracted to deal the entering foreign company's distribution. This choice enables the entering company to obtain benefits from a distribution specialist in the foreign market, avoid some bureaucratic structures and focus on its core business.

The make-or-buy decisions are considered to be one of the most critical areas in international business. Once made, they are often difficult to change. The factors affecting the distribution channel form selection (integrated vs. independent) are presented and supported with research findings of Anderson and Coughlan (1987). If a company's experience-based assets such as high brand knowledge and confidential inside information are difficult or not wanted to replace, the interest in choosing integrated channel increases. The product age also influences the channel selection. It is reasonable to expect that products with high maturity can be distributed through independent channels, because they are probably more established and well known in the market and there is no special knowledge or technology that would need to

be protected. Service requirements can also have an effect on channel selection. If a product needs a high level of service, the integrated channel is more reliable in performing the service in a desired way than the independent channel. Product differentiation has also influence on the channel choice. The research findings by Anderson and Coughlan (1987) support that in highly differentiated products the integrated channels are more likely used. This can be partly explained with the increased technology and service levels in such products, which the company wants to protect as its core business. Cultural differences of the target country being entered may also affect the choice of an integrated or independent channel. The independent distribution channel form may be more suitable when the cultural differences between the countries are considered rather high. To sum up, these major factors affecting the distribution channel form selection are presented in Table 3-2.

Table 3-2 Major factors affecting the distribution channel form selection, integrated vs. independent (Simplified: Anderson and Coughlan, 1987)

Factors	Integrated "make"	Independent "buy"
Experience-based assets	High	Low
Product maturity	Low	High
Service requirement	High	Low
Product differentiation	High	Low
Cultural difference	Low	High

Other factors affecting the form of distribution channels are related to legal restrictions on foreign market investments, the presence of already established distribution channels, the closeness of products to company's "core" business, the strength of the firm's patent and competitive behavior of other firms. However, the direction of these factors affecting the form towards integrated or independent channels is ambiguously specified in the research findings, and is therefore not considered as the major factor.

According to Rosenbloom (1994, 508) also the surrounding environment consisting of economic, competitive, sociocultural, technological and legal variables has an impact on the marketing channel participants and the whole strategy. Adapting the channel strategy to an international environment is a much more complex task than to the national environment. The complexity of the channel strategy increases in the internationalization phase of the company, when the environment becomes larger and more changing for the company. Economic variables such as recessions or fluctuations in foreign currency may have negative impact on the channel partners, as well as variations in competitive structure among many different

countries. Sociocultural variables such as cultural values, attitudes or perceptions can influence all elements of the marketing mix, and the marketing strategy as well, whereas the primitive level of technology in the target market can affect the whole channel strategy. In developing countries the flow of information and materials is often less developed than in Western European countries. In addition, the legal environment and its regulations need to be examined to avoid any negative affects on the channel strategy.

3.4 Structure of distribution channels

To be able to transfer the goods from production plant to end customer, a company has to create its distribution strategy by forming a distribution channel structure. The distribution structure has been studied by Stern and El-Ansary (1992), Inkiläinen (1998), Fisher (1997), Abrahamsson (1997) as well as Gabrielsson (1999), to name a few. In this part we will discuss the centralization of distribution channels, four generic distribution structures, and the relation of product type to distribution channel structure.

Stern and El-Ansary (1992, 545) form the distribution channel structure by deciding on channel length, channel width and number of different distribution channels involved. Channel length describes vertically the amount of levels consisting of intermediaries involved in the process of transferring the products from production plant to the final customer. Channel width describes the amount of intermediaries at a particular level in the distribution channel. The number of different channels used can vary. A company may use direct distribution of a product to end customer and a long channel consisting of different intermediaries simultaneously.

Inkiläinen (1998, 34) defines distribution structure by means of the number of echelons, degree of centralization and the degree of postponement. The number of echelons with storage points or inventories describes the distance and the amount of levels between the manufacturer and the end consumer. An echelon is defined as a number of actors (manufacturers, distribution centers, wholesalers, retailers) with own storage points operating in different levels of the supply chain. A direct delivery structure has no inventories between the manufacturer and end consumer, single-echelon structure has one storage point, whereas a multi-echelon system has vertically at least two storage point levels.

The degree of centralization describes the number of units in a horizontal level, with the extremes being centralized (one) or decentralized (many). A centralized distribution system

can be achieved by either lowering the number of stocking locations to one or by establishing a distribution center (DC) to collect various replenishments and later on forward them to local warehouses. Historically, the evolution in European distribution structures has changed from traditional decentralized to more centralized, time-based distribution structures.

There is empirical evidence (Abrahamsson 1993 in Inkiläinen 1998, 47) that centralized distribution structures result more positively in terms of shorter lead times, better delivery performance as well as lower costs, than decentralized distribution structures. Time based distribution (TBD) structure proposed by Abrahamsson differs from the decentralized structure with lower number of echelons (national warehouses replaced by central warehouse) and higher degree of centralization. The two extreme distribution structures, traditional decentralized distribution and the modern centralized distribution structures, are illustrated in Figure 3-4.

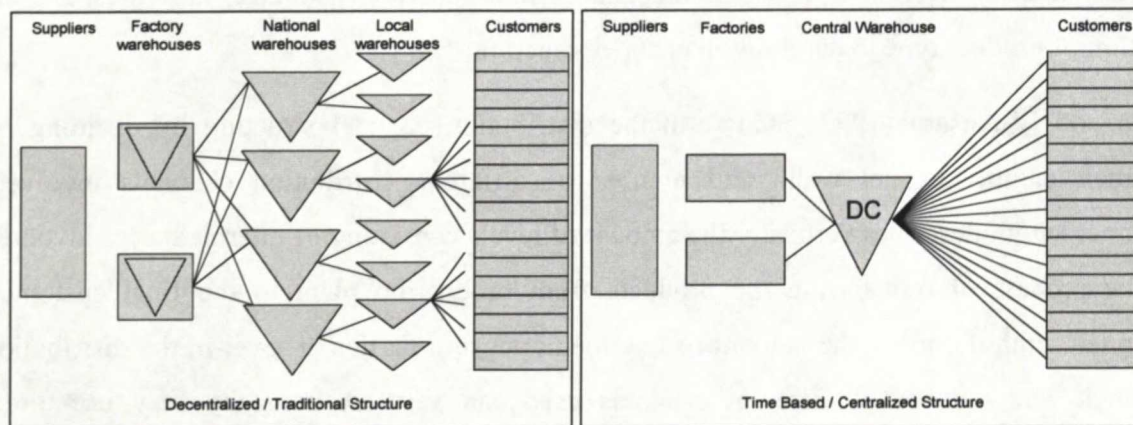


Figure 3-4 Decentralized and centralized distribution structures (Inkiläinen 1998, 51)

The idea of postponement is to delay the changes and form of a product (form) as well as decisions concerning the inventory location (place) to the latest possible point (time) in the distribution system (Inkiläinen 1998, 52). To simplify, there are three generic forms of postponement being recognized: form, place and time postponement. Form postponement means delaying the final process of manufacturing, assembly or packaging until the customer needs are defined (Bowersox and Cooper 1992, 100). Because risk and uncertainty costs increase as the product becomes more differentiated, the finalizing of product is delayed to latest possible process phase. Place postponement aims to keep inventories of the supply chain in upstream stages and products in a multipurpose form. The value-adding logistics (VAL) - focusing on moving the value-adding activities from production sites closer the customer - is actually based on these generic postponement forms delaying the final form and

place of the product (Inkiläinen 1998, 57). Time postponement means delaying the product location until a customer order is obtained (Juneja 1999, 40). The opposite of postponement is speculation, where relatively large inventories are pushed close to the point of sale to provide adequate product variety for customers (Stern and El-Ansary 1992, 23).

The analogy of speculation vs. postponement can be found from push and pull theories, (Inkiläinen, 1998). Traditional distribution theories have been based on the manufacturing “push” philosophy. In practice this has meant high inventory levels and field warehouses, waiting for customer to come and purchase. However, based on the cost savings and improved customer service, this manufacturing “push” philosophy has been gradually replaced with the market “pull” philosophy. The idea of postponement has been applied in manufacturing and assembly through new theories such as new production techniques Just-in-time (JIT), Quick Response systems (QR) for data collecting and (ATO) assembling products to order from components. The ultimate in postponement is manufacturing to order (MTO) from raw materials. The concept of value-adding logistics (VAL) aims to transfer the value-adding activities from production sites closer to the end customer. To conclude, these new distribution theories have resulted in more accurate demand data as well as faster and more flexible methods of distribution and production, with increased customer-focus.

3.4.1 Four generic distribution structures

Based on earlier presented theories concerning distribution structure, Inkiläinen (1998, 76) forms four generic structures of physical distribution:

1. Direct delivery
2. Decentralized multi-echelon structure
3. Centralized “time based” structure
4. Value-adding network with “postponement” and modularity process view

These four generic structures with their eight substructures (A-H) will be described and illustrated in terms of their focus, basic trade-offs and design criteria below (Inkiläinen 1998, 76-80). However, the generic structures do not take into account the ownership of the distribution channel structures presented. The symbols illustrating the figures are shown in Figure 3-5.

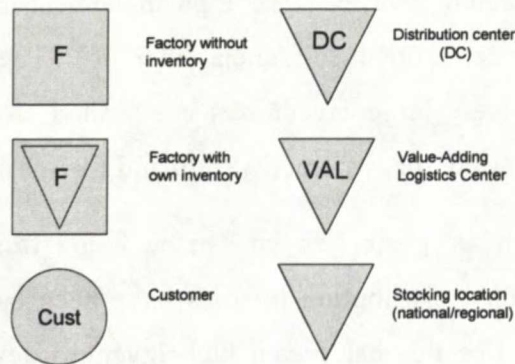


Figure 3-5 Symbols for figures (Inkiläinen 1998, 77)

Direct delivery is a straight delivery from the factory to the customer without any inventories. Using the manufacturing-to-stock (MTS) production strategy, the products can be also warehoused to the factory with an own warehouse (Figure 3-6). However, a transit point for consolidation of shipments can be arranged (Figure 3-7). In general, direct delivery focuses on costs and direct customer contacts. Basic trade-offs concern lot size/flexibility, lot size/costs and MTO vs. MTS (Manufacturing To Stock). The criteria for creating such structure include scale economies in production and benefits in capital costs.

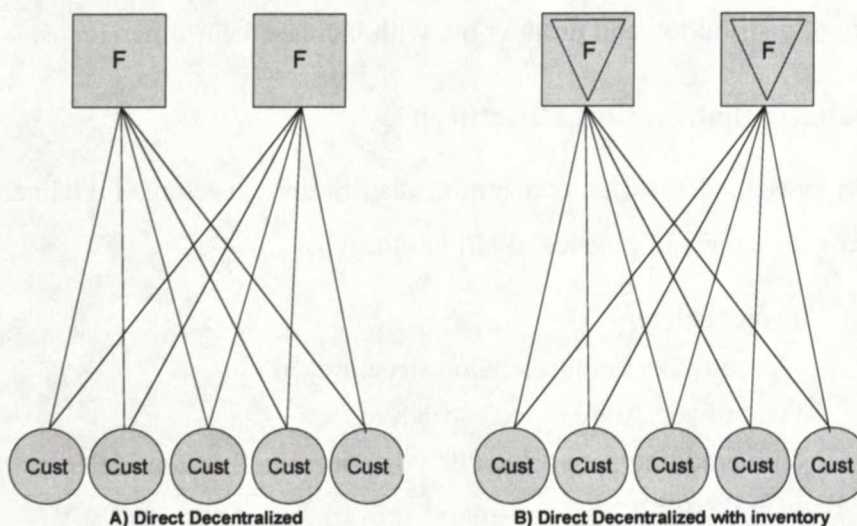


Figure 3-6 Direct decentralized distribution structures without inventories (A) and Decentralized distribution structure with inventory (B) (Inkiläinen 1998, 77)

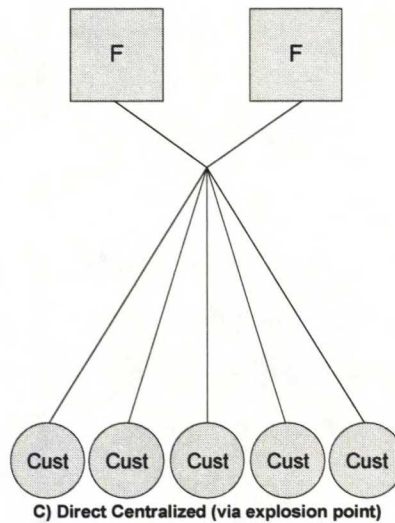


Figure 3-7 Direct delivery with centralized transit point (C) (Inkiläinen 1998, 77)

The centralized single-echelon (time-based) structure consists of not more than one storage point between the producer and final customer. Centralized distribution structure focuses on delivery lead-times, customer service and channel separation. The basic trade-offs are cost of holding/cost of transportation, geographical distance/lead time distance. Design criteria consist of a minimum total capital investment, high customer service, fast methods of transportation and specialization. The inventories can be centralized close to factory or centralized close to the customer as shown in Figure 3-8. These structures support the time based distribution (TBD) structure.

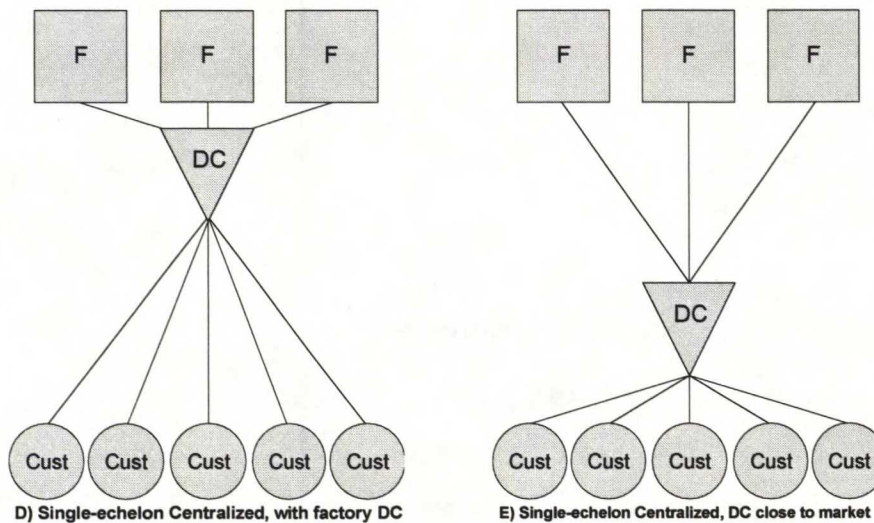


Figure 3-8 Centralized single-echelon distribution structures (D) and (E) (Inkiläinen 1998, 78)

Juneja (1999, 41) explains the centralized nature of TBD with three factors. Firstly, a centralized distribution structure decreases the total physical distribution costs (function of

inventory holding, warehousing, transportation cost, cost of lost sales). The centralized model assures better product assortment, smoother product flows, decreased product shortages, easier inventory control and forecasting, totaling with decreased inventory costs and stable transportation costs.

The second reason for the centralized nature of TDB is the separation of logistic channel from the transaction channel. In other words, the sales network can consist of many sales branches, even though the products are delivered from one centralized distribution center. Gabrielsson (1998, 27) presents a similar separation in Figure 3-10, where the producer may use either dual “decentralized” sales channels or hybrid “centralized” sales channels. In dual sales channels outsourced distributor or reseller, and producer’s sales representatives perform in parallel same channel operations, whereas in hybrid sales channels the channel operations are in a horizontal direction shared and thus more “centralized”. The distributor or reseller in the foreign market takes care of the product fulfillment operations, whereas the producer’s sales representatives in turn manage the promotion and customer generation functions.

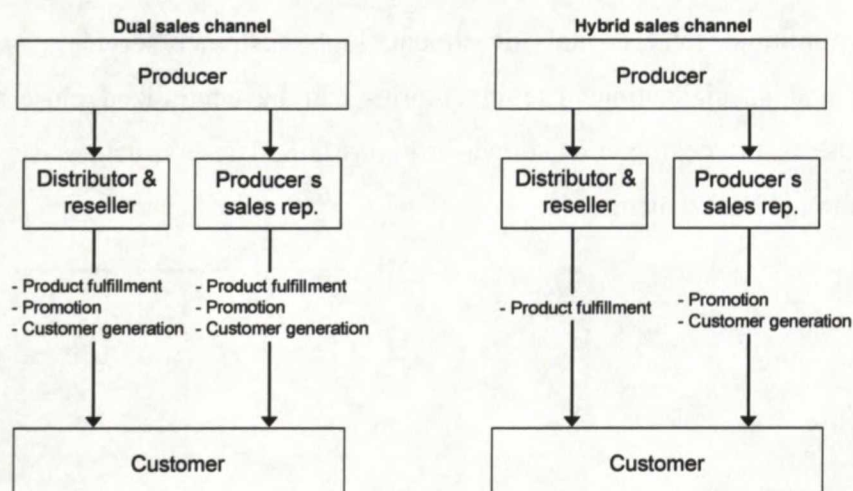


Figure 3-9 Multiple sales channels (Gabrielsson 1999, 28)

The third reason for the centralized nature of TDB can be found from Abrahamsson’s (1993) research, where the case companies are well known in the market and they sell standardized, quite mature industrial products with no great national differences. All in all, Abrahamsson’s research and quantitative calculations (“Square Root Law” Maister 1976 in Juneja 1999, 41) conclude, that the lowest total distribution costs can be reached with lowering the warehouses to the minimum, with requested lead-time as a prerequisite. However, factors limiting the benefits of centralization concern the countries where the products being sold have country-

specific characters compared to other countries. Then, the centralization does not bring additional savings as the amount of different products would be high anyway.

A value-adding network with “postponement” and a modularity process view focus on creating value for customers, reducing risks and have responsiveness to the market. Basic trade-offs focus on deciding how much/when/where and postponement/speculation. Deciding criteria relate to high customer service, minimization of uncertainty, cost efficiency and channel integration. Postponement with centralized single-echelon distribution is presented in Figure 3-10. A centralized inventory may serve as a value-adding logistics center (VAL) consisting of parts, components or modules, situated close to the market. This structure supports the ATO strategy, where the parts are assembled to customer order.

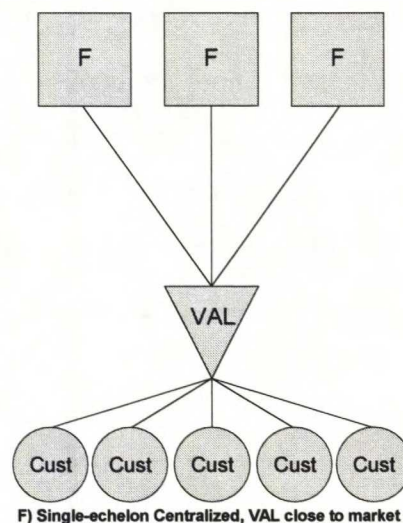


Figure 3-10 Centralized value-adding single-echelon distribution structure (F) (Inkiläinen 1998, 79)

The decentralized multi-echelon structure is of a divergent nature and has vertically more than one inventory in its structure in different levels of the distribution structure (Figure 3-11g). The Decentralized multi-echelon network can also be partly centralized (Figure 3-11h). As this traditional decentralized structure focuses on availability and total costs, MTS is the mostly used production strategy to ensure the product availability but also to benefit from scale economies. The basic trade-offs are intrafunctional trade-offs, cost/service tradeoffs and number of channel actors. The design criteria for this generic structure are minimum total costs, local presence and maximum channel-wide profits taking into account all channel actors.

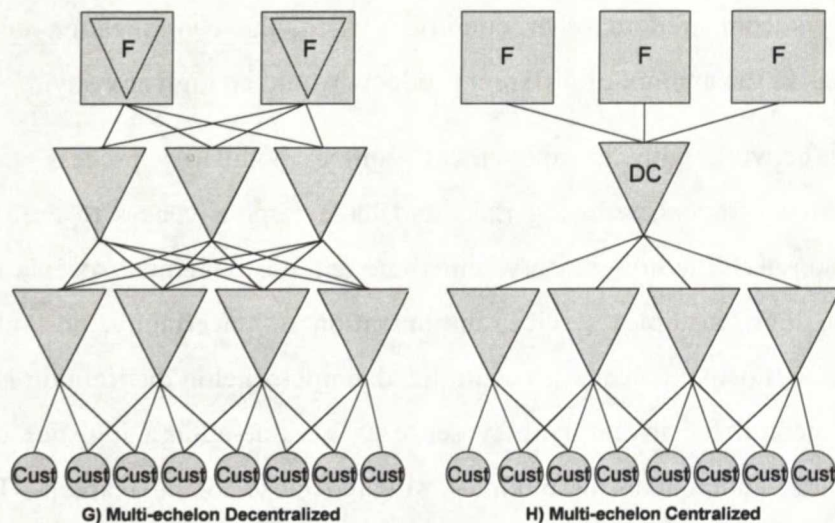


Figure 3-11 Multi-echelon decentralized (G) and multi-echelon centralized (H) distribution structures (Inkiläinen 1998, 80)

To conclude, the different distribution channel structures and substructures presented by Inkiläinen (1998) have been generalized into a distribution channel structure matrix with two variables: directness of distribution (direct or indirect through intermediaries) and degree of centralization (centralized or decentralized), illustrated in Figure 3-12.

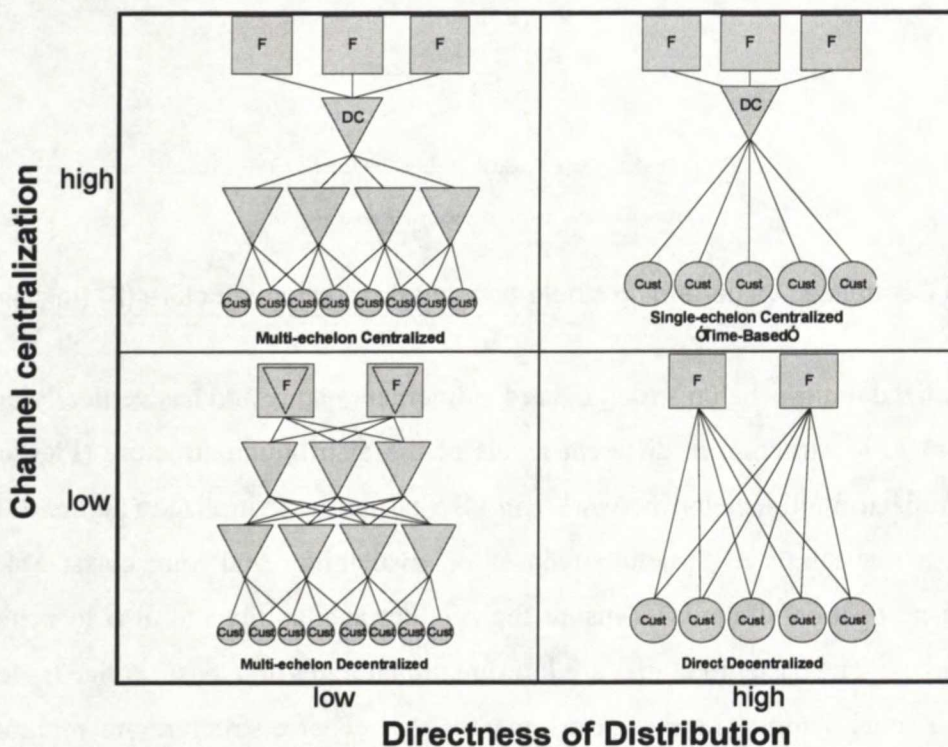


Figure 3-12 Distribution channel structure matrix

The first variable, the directness of distribution describes the amount of echelons in the distribution channel structure. The high directness of distribution means that there are no

intermediaries between the manufacturer and end customer. On the contrary, low directness of distribution means that there are many echelons with intermediaries, making the structure rather indirect. The second variable, the channel centralization describes how centralized the intermediaries in each echelon are. High centralization describes that there are less intermediaries in each echelon compared to decentralized channel with many intermediaries in each echelon.

3.4.2 Functional and innovative product types

Fisher (1997) has categorized suitable distribution channel structures for different product types. The products are classified into functional or innovative types on the basis of their demand patterns. Functional products need efficient distribution channel structures and innovative products need responsive distribution structures. Efficiency is increased by centralization and responsiveness is improved with buffers and value-adding operations. In the following, the product types as well as the suitable distribution channel structures will be examined.

Functional products are mass products that satisfy basic needs. These products have long product life cycles with predictable and stable demand over time, causing price competition and low profit margins. Also product variety is low, 10 to 20 variants per category. For these products forecast errors, stock outs and price markdowns are rare. As these products are produced in large amounts, they require long make-to-order lead times. An example of a functional product is coffee. Innovative products instead are totally opposite product types, with unpredictable demand, short life cycles, high margins and huge product varieties (often millions variants per category). The production systems are flexible, with short lead times required. The buffer inventories and production capacities are positioned to be quickly prepared against the demand fluctuations. For these products forecast errors, stock outs and price markdowns are high. An example of innovative products is the mobile phone. Differences in demand for functional and innovative products are listed in Table 3-3.

Table 3-3 Differences in the demand of functional and innovative products (Fisher 1997)

	Functional	Innovative
Aspects of demand	Predictable	Unpredictable
Product life cycle	> 2 years	3 months – 1 year
Contribution margin	5% - 20%	20% - 60%
Product variety (per category)	Low (10-20)	High (millions)
Forecast error	10%	40% - 100%
Average stockout rate	1% - 2%	10% - 40%
Average forced end-of-season mark-down as percentage of full price	0%	10% - 25%
Lead time required for made-to-order products	6 – 12 months	1 – 14 days

An efficient distribution structure for functional products is achieved through cost minimization strategy, as shown in Figure 3-13. In manufacturing this means maintaining a high average utilization rate and long batch sizes. In inventory strategy this means increasing inventory turns and minimizing average inventory levels, and simultaneously shortening lead times until they increase costs and requirements of high quality. The approach for selecting suppliers should be based primarily on cost and quality criteria. The aim of this distribution structure is to reach the customer with adequate amount of inventories supported by decentralized echelons nearby.

	Functional Products	Innovative Products
Efficient supply chain	Match	Mismatch
Responsive supply chain	Mismatch	Match

Figure 3-13 Efficient and Responsive supply chains (Fisher 1997)

A responsive distribution structure for innovative products must respond quickly to unpredictable demand in order to minimize stockouts, forced price markdowns, and obsolete

inventory (Figure 3-13). Additional flexibility is achieved from buffer capacity and buffer stocks of parts and raw materials. Shortening the lead-time is of primary interest regardless to the increase of costs. Suppliers are primarily selected on speed, flexibility and quality criteria. The modular design principle is used in order to postpone product differentiation for as long as possible. This distribution structure aims towards centralized, almost direct distribution with some degree of postponement to add flexibility. Distribution centers or value-adding centers are an important part of this type of distribution structure.

3.4.3 Evolution of distribution structures in the EU

Historically, international companies have favored establishing independent subsidiaries in their European operations. Inkiläinen (1998, 67) presents two generic trends of evolution of the distribution structure discussed in the following: change from decentralized to more centralized distribution models, and change to more customized or differentiated markets.

The decentralized model of production and distribution channel systems dominated Europe until the establishment of the European Union's free trade area in January 1993. According to Rutkowski (2004, 3) foreign companies had local production facilities and distribution in most of the countries where they performed business. The major reasons for such a decentralized model were customs and border formalities that would have increased the costs and time used for cross-border transportation of goods. The tendency in today's new enlarged European Union is towards centralized models, as the European Union's free trade area has enabled international companies to create centralized and more cost efficient models for production and distribution systems. According to research by Cap Gemini (2003, 8-9) there are already implications for European distribution structures resulting from the 2004 EU enlargement, where the general European logistic trends focus on integrating and centralizing European logistics. As a result, companies have been able to centralize their European supply chain structures, achieving large cost savings.

After the EU enlargement, the free trade area increased approximately 25% in terms of inhabitants and geographical area. According to Rutkowski (2004, 6) the main condition for building centralized production and distribution channel systems was that the lead-time of products should not exceed 24-72 hours, counting from the Benelux countries as the center of gravity before enlargement. This means, that after the enlargement the EU's center of gravity would move from Benelux-countries to Germany, increasing as well the interest of Poland as a future country of production and logistic centers especially as a regional distribution center

in Eastern Europe. Some additional distribution centers are needed, as the Eastern European regions cannot be reached within a reasonable timeframe from the distribution centers mostly located in the Benelux countries.

The evolution of distribution structures is also moving the product types towards more customized or differentiated products. While the supply chain structures have become more centralized, the country specific assembly operations have become very local to finalize the product close to the customer. Companies are modularizing and postponing their products to be able to meet better the customer needs and increase services provided. Also product life cycles have decreased because of the rapid product innovation to ensure competitiveness. In addition, outsourcing logistic operations to third party (3PL) logistics service providers has increased rapidly, and the 3PL industry has started to form large service providers (Cap Gemini 2003, 8-9). According to earlier study (CGE&Y 2002 in Cap Gemini 2003, 8) 94% of companies in Europe had outsourced part of their operation to third party logistics service providers.

3.5 Factors affecting the distribution channel choice

Factors affecting distribution channel choice in the foreign market entry process are cost of distribution channels, capital requirement, control over the products in the channel, adequate market coverage, character, and continuity of channel relationship, defined by Stern and El-Ansary (1992, 544) in the following.

Distribution channel costs are composed of fixed establishing costs and continuous maintaining costs. Establishing costs are the investment costs that are used in the beginning of market entry to create new distribution channels or develop the existing ones. Furthermore, costs of maintaining the existing distribution channel are such as transportation, storage, or paperwork costs. The use of independent distribution channels with intermediaries is often favored because of the lower capital requirement and cash flow compared to integrated, company-owned distribution channels.

Each distribution channel type has a different level of control. It is generally recognized, that a company's own distribution channels permit highest possible control, but increase costs. Depending on the business, product type, and target market, the entering company has to define the level of control it wants to have over its distribution, and decide on the channel type.

A company's market coverage strategy has influence on the distribution channel choice as well. Generally speaking, the major goal in coverage is full-market coverage with an optimum sales volume in each market, with reasonable market share and adequate market penetration. Rolnicki (1997, 17) presents intensive, selective and exclusive market coverage strategies. Intensive market coverage strategy aims to cover a certain market or geographical area as efficiently as possible, using different distribution channels to meet the customers. In selective strategy a company uses only certain intermediaries to distribute the products to customers, whereas exclusive strategy uses only one intermediary per market segment or geographic area. Also a combination of coverage strategies may be needed, if the company is internationalized in considerably various markets.

The character of a company, product and the target market affect the distribution channel choice as well. Especially the nature of the product specifies the requirements on the distribution channels. All in all, the selected distribution channel must fit into these characters to avoid any conflicts with possible intermediaries.

The continuity of a channel relationship is considered quite challenging, especially when speaking of intermediaries. Companies plan their distribution channels in a long-term perspective, while the intermediaries involved tend to look in shorter perspectives. This is often explained with the relatively small size of these institutions. If a distribution channel is desired to perform consistently well, it must have continuity. This reason alone leads often to company-owned distribution channels.

3.6 Key elements affecting distribution channel structure in foreign entry

Based on the literature review from previous chapters, a framework with key elements affecting the distribution channel structure in a company's foreign market entry is presented in Figure 3-14. The three key elements guiding the empirical study are: market entry process, target market and distribution channel strategy characteristics. In other words, these key elements have impact on the structure of distribution channels in foreign market entry.

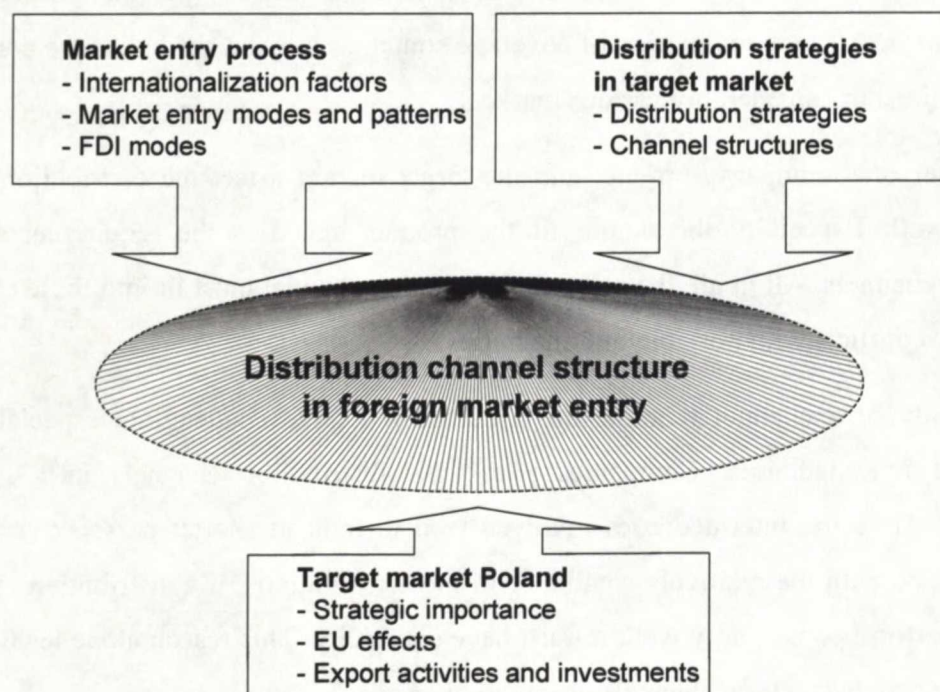


Figure 3-14 Key elements affecting distribution channel structure in foreign market entry

Firstly, the market entry process focuses on describing the internationalization experiences of eight Finnish production companies established in Poland. The aim is to find the main motives and challenges of their internationalization processes. In addition, the purpose is to define also the internationalization patterns and market entry modes, and find the most used FDI modes used for establishing the local operations in the target market. Secondly, the characteristics of the target market need to be examined. Therefore, Poland's strategic importance, effects from the EU-membership, and the export activities of case companies are examined. Thirdly, distribution channel strategies and channel structures of each case company are described and illustrated. As a conclusion, the relations between the internationalization processes and the distribution strategies of Finnish production companies to Poland will be defined in the final outcome of the framework.

4 Finnish experiences in Poland

This case study is based on the key elements presented in the framework that guide through the empirical study. Furthermore, the final objective is therefore to identify and illustrate the distribution channel structure in foreign market entry, and answer to the research problem what the entry modes of Finnish production companies established to Poland are and what the characteristics of their distribution strategies are.

According to the latest information from Finpro Poland, approximately 200 Finnish companies are operating in Poland, of which almost 60 companies are production companies with local production units. Geographically most of the companies are located in Mazowieckie county (Appendix 1). The interest of Finnish companies towards Polish markets has clearly increased during recent years, especially after the EU-membership of Poland. However, so far the total FDI of Finnish companies have remained relatively low. Finnish FDI to Poland in the end of year 2004 was USD 578.5 million, which positions Finland on the 18th place of all companies investing to the country. Most of the case companies examined in the current study were among the 20 companies investing to Poland in 2004.

In 2005, the Central Chamber of Commerce of Finland conducted a survey concerning how the markets of the Baltic States and Poland have developed during the first year of EU membership. The research examined the functionality and development of these business environments and revealed the biggest problems, most positive factors, and future investment interests of the companies. The research examined viewpoints of altogether 280 top Finnish business executives from the Baltic and Polish markets, 70 executives from each country.

Poland was considered second-most important market after the Estonian market, with a school rate of 6.89 in terms of the business environment's functionality (Finland=9). The three most positive developments during the last years concerned joining the EU, reduction of bureaucracy and improvement in the corporate culture. The biggest problems detected in business and in the Polish market concerned the trade practices and corporate culture, price level and financing. The future and significance of the Polish market for the Finnish companies was expected to increase considerably over the next five years. In addition, the majority of respondents were planning to benefit from the market growth by increasing the exports, but also establishing subsidiaries (11%), alliances (20%) and increasing subcontracting (18%).

4.1 Interview process

The interview process was divided chronologically into five phases: selecting the examined companies, preparing for data collection, defining interview themes, scheduling the interviews and describing the interview process.

Firstly, the criteria for selecting the case companies and interviewees were defined:

1. The companies should be of Finnish origin, subsidiaries of large Finnish Groups. In addition, the companies together should cover different industries, both industry and consumer product branches.
2. The companies should already have local production units established in Poland. I.e. Service companies or companies performing export activities without own local operation units in the target market would not be selected.
3. Each interviewee of the case companies should be a top business executive, with individual experience or knowledge on the company's market entry process to Poland.

Fulfilling the criteria, the following eight case companies were selected:

1. Consolis Polska Sp. z o.o
2. Kuusakoski Sp. z o.o
3. KWH Pipe Poland Sp. z o.o
4. Martela Sp. z o.o
5. Nordkalk Sp. z o.o
6. Raisio Polska Food Sp. z o.o
7. Ruukki Polska Sp. z o.o
8. Sokół S.A./HK-Ruokatalo

Secondly, the preparation for data collection was considered an extremely important phase and it was crucial to succeed in the interview at once, as all the interviewees were highly respected and busy directors. In the semi-structured question form, much emphasis was put especially on the form, amount, type and order of the questions. The set of ten open questions was the same for all interviewees, which enabled further analysis. The interview questions are in Appendix 2.

Thirdly, the semi-structured theme interviews used in the study consisted of two main themes: internationalization and distribution channel structures. To be more specific, the internationalization theme concerned market entry modes, motives and challenges of the market entry processes of the eight case companies to Poland. Another theme, distribution

channel structures, focused on examining the distribution channel strategies and potential differences between the strategies on the whole group level and particular country level, as well as on the nature of distribution channel structures within these subsidiaries being established to Poland.

Concerning the scheduling as the fourth phase, all interviews on the internationalization theme were conducted from October 2005 to January 2006. Four interviews were carried out in Poland in October and November 2005, the rest four in Finland during January 2006. Later on, additional questions concerning the distribution channel strategy theme were presented in April 2006. All semi-structured theme interviews concerning internationalization theme were recorded. The additional questions concerning distribution channel strategies were presented via e-mail and the answers were obtained through telephone interviews and e-mails.

The fifth phase was to carry out the interviews. Before the interviews were conducted, the interviewees were first contacted with motivation letter by e-mail. Next, the interview time was agreed by phone or e-mail and set of questions was sent to interviewees. The research topic could be considered interesting for the interviewees, because all (100%) of the interview requests were accepted. The interview lasted from one to one and half hours and was recorded with the permission of the interviewees. This way the researcher could totally focus on the interview situation and did not have to make any notes.

4.2 Company descriptions

The aim of the company descriptions is to give a short presentation of the group and its company in Poland, and to describe the financial figures. The market entry process to Poland, special characteristics of the company, as well as description of market and competitors are also presented (Appendix 3).

4.2.1 Consolis Polska Sp. z o.o

Consolis is a manufacturer and solution provider of structural precast concrete elements. The group is called Consolis SAS from November 2005. The companies belonging to new Consolis group have together over 100 production plants in 21 countries. In 2004 Consolis group net sales were EUR 646 million, of which Poland's net sales were 1% (EUR 6.5 million) and personnel 3.6% (186). The interviewed Sakari Sipilä is specialized in Consolis business development.

Market research conducted in the late 90's showed positive growth prospects. In 1999 the Consolis Polska Sp z o.o sales office was established in Warsaw. In the same year Consolis acquired a uncompleted production plant with a partner in Gorszkowice near Warsaw. This can be considered as a greenfield investment. Despite of the positive market research, the construction market growth started to fall. In 2001 Consolis bought the partner out from the production plant and moved the head office to Gorszkowice. In 2004 company invested in 2 new production lines to increase the production. In November 2005 Consolis Oy Ab and French Bonna Sabla formed Consolis SAS.

The market of prefabricated concrete products is small, only a few % of the building sector. However, the share of prefabricated elements is expected to grow fast. There are only a few competitors, mainly foreign companies. Labor costs are considered to increase rapidly, which will increase the interest for prefabricated products. Currently Consolis has quite a low residential building, mainly project-based commercial buildings and non-residential buildings. As for more standardized products, Consolis is looking for the possibility to start the railway sleepers' production. The B2B infrastructural building is expected to increase as well. New production capacity is needed. The current problem is where to find more production capacity to extend the business. In the future, Consolis will also put effort on strengthening the brand, improving the ideology and acceptance of prefabricated concrete products.

4.2.2 Kuusakoski Sp. z o.o

Kuusakoski is specialized in recycling, supplying and refining metal-based products in the Baltic Sea region. Kuusakoski has over 20 service locations in Finland, as well as activities in the Baltic countries, Russia, Sweden, Taiwan and Poland. Net sales of the group in 2004 were EUR 808.9 million, of which Poland net sales were 9% (EUR 69.8 million) and personnel 2.5% (69). The interviewed Pertti Moilanen is Kuusakoski director of Baltic States and Poland.

In 2001 the Kuusakoski Sp. Z o.o metal refining plant was established as a greenfield investment to Gdynia. This entry mode was considered less risky investment than acquisition. Gradually side 6 branches were established for collecting and processing the raw material, of which one is being closed in the near future. A grinding plant was planned, but was not carried out. The business is critically monitored, as the prices of raw-material change all the time.

The market is highly competed. There are lot of competitors, big local companies - mostly with German capital - and great amount of small players. Raw-material prices are very tough, and grey economy exists in the market. Kuusakoski is still among 5 biggest competitors. The market volumes are expected to grow in the future. Investing in a grinding plant is not excluded. The cost-efficiency is improved by cross-border transportation of junk or partly processed metal for further development. Currently, the most important thing is to create reliable customer-relationships with Polish steel factories.

4.2.3 KWH Pipe Poland Sp. z o.o

KWH Pipe Poland is a subsidiary of the Finnish KWH Pipe Group. It is a manufacturer of plastic pipes and pipe systems for various applications such as water, sewage, gas, and irrigation purposes. Group's net sales in 2004 were EUR 436 million, of which Poland's net sales were 4% (EUR 19 million) and personnel 5.5% (137). The interviewed Tomasz Boruc is managing director of KWH Pipe Poland.

KWH Pipe Poland was founded in 1993. After export sales to polish market, the company started their own production of pipes in Piaski near Belchatów in 1995. This greenfield investment was established by moving a production line from a German company. In 1999 KWH Pipe established new production plant. In 2000 and 2001 the export operations were increased. In the greenfield operation the key challenge was to find skillful and devoted people. It was also challenging to start a production that is rational, profitable and economical. Creating the acceptance of pipes made of plastics PO and PVC has been challenging as well. In Europe almost 90% of the sales are through dealers. In Poland only 10% of sales are made through dealers, so 90% is sold straight B2B.

The market is highly competed. Almost all the European pipe service providers and manufacturers are in Polish market. There are at least 2 big foreign companies that are KWH Pipe's straight competitors with local production and similar products. Additionally, there are many competitors- mainly German export companies - offering low-price products. There is also high substitution of product materials. In the future the growth of this market will be limited. The chances are in the custom-made niche products that can be produced profitably using prefabricated products. To maintain the competitiveness as a relatively small company among the competitors, KWH Pipe has decided to differentiate itself by moving from "mass production" to "niche products". This means also increasing the production of prefabricated products. Thanks to prefabricated products, KWH Pipe achieves faster response to customer

needs and creates closer long-term customer relationships offering custom-made products. KWH Pipe will invest in a new hall to start the production of prefabricated products.

4.2.4 Martela Sp. z o.o

Martela is an office furniture company that has subsidiaries in Finland, Sweden, Norway and Poland, and authorized dealers in many countries. Martela group's net sales in 2004 were EUR 100.7 million, of which Poland's net sales were 4% (EUR 3.9 million) and personnel 7.6% (50). The interviewed Juha Ihalainen was the chairman of the board and managing director of Martela Sp. z o.o in 2001-2005.

In 1994 Martela started export sales to Polish market in co-operation with a Polish import dealer MDC. However, local production was needed for a long-term success. In 1996 local Martela assembly was established and MDC continued as Martela's sales channel. In the late 90's Martela made an acquisition of MDC, having its own assembly, subcontracting and sales channel. In 2000 - Martela Group's Europe's head-office was established to Warsaw. In 2005 Martela invested into a new logistics centre, where all the assembly of company's products are being made. Sales departments (6) are covering the country's main population centers.

The market is extremely difficult to compete in. There is couple of big competitors and many small competitors, local workshops. The business is very local and domestic. Only 10% of the office furniture is imported and 90% are Polish. Industry polarizing will occur. The office furniture market will concentrate to 10-15 competitors, of which 5-6 will be the major competitors. The office furniture market has had strong 20-25% yearly growth during 2004 and 2005. The market grows together with the growth of GDP. In the future, the market will probably grow 5-7% per year from 220 million EUR and will double in 10 years.

Martela's aim is to become one of the biggest office furniture providers in Poland. This means that they have to operate in whole Poland. Martela is improving its main strengths: increasing the amount of Polish subcontractors, developing and broadening the sales and distribution network, using only some dealers to cover the rest of the market and increasing brand awareness as well as improving the product catalogue. Franchising is planned in the near future. Compared to other competitors, Martela's strategy is to use own direct sales channels to gain the customer relationship and straight feedback.

4.2.5 Nordkalk Sp. z o.o

Nordkalk is the producer of different limestone-based products. The products are used mainly

in the paper, steel, and building material industry, and in the environmental sector. Nordkalk has operations in more than 30 locations in eight countries around the Baltic Sea region. Group's 2004 net sales were EUR 270 million, of which Poland's net sales were 7% (EUR 20 million) and Poland's personnel 21.4% (1288). The interviewed Esa Tikka is the Nordkalk division director of Central and Eastern Europe.

The corner stone of the limestone business is the availability of raw material. It is important to have enough raw-material reserves. As being a logistic business, the raw material sources are located around the Baltic Sea region. The type and quality of raw material vary regionally, and thus the limestone is refined for different products of different use. Poland's limestone is high quality and can be used in all product segments.

The strategy in Poland focuses on the growth potential areas such as environmental sector, especially in products used in power plant gas cleaning and water cleaning. Through the EU legislation, environmental matters will increase in the future. Also in the infrastructure sector road construction is a significantly growing segment and might even double in forthcoming years. The growth can probably be explained partly with EU-funds that have enabled to accomplish many projects. The agriculture sector has strengthened, and is seen as a segment to invest in. The glass and steel sectors are seen stable.

Through privatization programs and acquisitions Nordkalk has today 4 limestone production plants. Operations to Poland started with exporting limestone from Gotland to Northern Poland for the sugar industry. The first sales department was established to Gdansk in 1997. In 1998 the main office was moved to Warsaw. First privatizations of limestone plants started already in 1995. Privatization programs have enabled Nordkalk to gain own limestone reserves through acquisitions. In 1999 Nordkalk made two production plant acquisitions: Szczecin and Slawno. The second strong privatization program of Miedzianka and Truskawice production plants started in 2000, when Nordkalk made 80% acquisition of Miedzianka plant. The privatization contract ended in 2005 and Nordkalk ownership increased to 100%. In 2000 Nordkalk also made acquisition of Wolica – a plant of young and reactive limestone - serving as a reserve. In 2000 the main office was moved from Warsaw to Krakow. In 2001 Nordkalk invested in a grinding plant in Wolica, similar as in Szczecin. In 2005 Nordkalk Miedzianka S.A was merged into Nordkalk Sp. z o.o.

Price is a very dominant decision-making factor. For example, availability or delivery assurances are irrelevant arguments. In the road production segment the competition is very

fragmented with many small players. Nordkalk has no straight competitors, however there are two competitors offering more value-added products. Nordkalk is planning investments to increase the grinding capacity and automation level. In the future, Nordkalk is planning to move to the next step in the value chain to maintain competitiveness, which means investing to the quick lime capacity.

4.2.6 Raisio Polska Food Sp. z o.o

Raisio is focused on producing plant-based food products. It has production units in 12 locations in six countries. Raisio group's net sales in 2004 were EUR 626.9 million, of which Poland's net sales were 6% (EUR 35.5 million) and personnel 17% (240). In Poland Raisio has expanded its operations to a new business field in dairy production. The interviewed Kari K rkk  is director of Raisio's international operations.

In 1992 Raisio started export sales to Polish market with local dealer. In 1994 Raisio sales division was established to Warsaw, and the distribution, sales and marketing channels that were built so far were overtaken. The KEVSOS free trade agreement enabled duty-free food product export between Finland and Poland until 1995, when Finland joined the EU. After that export became unprofitable and local operations were considered. Local production was established in 1995 through the acquisition of a production plant in Karczew near Warsaw. In 2004 Raisio invested in high storage warehouse in Karczew. In 2005 with a 20% minority of shares Raisio started co-operation with Obory, a dairy company located in Kozienice.

The market is highly competed and very fragmented. The margarine market is quite saturated, and the growth potential is in other fields, such as in dairy business. Raisio operations are not only sales and distribution, but modern branding as well. The company is moving from product selling to image-selling and individual trend consuming. Raisio is looking more widely on the whole Europe than only Poland. Poland serves as a distribution centre when exporting to other countries. In export business, Raisio is planning strong marketing to Czech and Hungary. Production capacity investments are not needed at the moment. However, more automation techniques, modernization of storage warehouse and a new business management system with high IT-technology are planned. Raisio is also looking in new business areas such as dairy and drink business.

4.2.7 Ruukki Polska Sp. z o.o

Ruukki Polska Sp. z o.o belongs to the Ruukki group, which supplies components, systems and total solutions to the construction and mechanical engineering industries. The Ruukki group has operations in 23 countries and employs 12 000 people. Group's net sales in 2004 totaled EUR 3. 569 billion of which Poland's net sales were 8% (EUR 279 million) and personnel 1.7% (207). The interviewed Veli-Matti Nopanen is Ruukki Poland's country leader.

After a period of export sales to the Polish market, sales subsidiary Rautaruukki Polska Sp. z o.o was founded in 1993. In 1994 the production of steel roofing started as a greenfield investment in Żyrardów near Warsaw, first with one production line. In the next years expansion of production lines, new sales departments and production stores were established. In 2001 Ruukki invested in new a production plant of steel roofing in Olkusz. In 2005 there were two production plant acquisitions: Asva Gasell and Metalplast. In the end of 2005 Ruukki Polska Sp. z o.o had 4 own production plants in Żyrardow, Olkusz, Oborniki and Wrocław.

Poland's market is considered extremely competed, where the building market's growth has not developed as expected. Competitors are both Polish and international. Many small, local competitors have a strong position in the market. Infrastructural building – especially EU-funded road network building – will increase in the future. Ruukki's strategic intention is to become a leading metal-based construction solution provider in the Nordic and CEE countries. Ruukki's focus in CEE-countries is especially Poland. Ruukki's aim is to offer customers the whole package from designing to deliveries, i.e. from products to solutions. Creating a cross-border production network within neighboring EU- countries can be taken under consideration because of the EU- membership.

4.2.8 Sokół S.A / HK-Ruokatalo

HK-Ruokatalo Group is a meat processing company operating in Finland, the Baltic States and Poland. Groups net sales in 2004 were EUR 680.4 million, of which Poland's net sales were 50.34% (EUR 342.5 million) and personnel 43.6% (3400). In Poland, HK-Ruokatalo's and Danish Crown's joint venture (50/50) Saturn Nordic Holding AB owns 82.54% of Sokół shares. The interviewed Simo Palokangas is CEO of HK-Ruokatalo Group.

For HK-Ruokatalo Poland is an important country, however not at the top from Finland's perspective. Sokolów and Poland are strategically significant in a long-term perspective in the meat industry. Besides Poland's own 40-million consumers market, Sokolów aims to draw a sales and distribution network to access the Central European market. As the European retail market and product sourcing will centralize in the future, HK-Ruokatalo wants to maintain its competitiveness in the future by being close to the big players and markets. It was a strategic decision for HK-Ruokatalo to enter the Central Europe and especially Poland.

HK-Ruokatalo considered a partnership rather than a greenfield investment when entering the Polish market. The connection to Poland started already in 1999 through HK-Ruokatalo's Swedish minority share investor LRF (Lantbrukarnas Riksförbund), who had minority shares of Far Foods (currently Sokolów). HK-Ruokatalo observed Sokolów and decided to buy 10% of shares in 2002, planning later to increase it to 20%. In 2003 HK-Ruokatalo was looking for a partner to become a majority shareowner. In 2004 HK-Ruokatalo and Danish Crown began strategic 50/50 partnership in Sokolów in Poland with share majority 82.54%. The internationalization through greenfield investment is considered a quite long and difficult way of entering the market.

Since all the major international chains have a presence in Poland, competition, especially price competition in the retail sector is extremely fierce. Companies such as Animex, Morliny and Duda are main competitors. Additionally there are thousands of small players. The competition is more between the certified meat producers and grey economy than the other major competitors. Meat business has an extremely big grey economy, some estimate 40% or even more. Although, mergers and EU standards have subsequently greatly reduced the huge number of facilities, the meat industry in Poland remains very scattered.

In the future, the grey economy is expected to diminish to 20%. Also industry polarizing will happen. Through EU standards the amount of small slaughterhouses and processing plants will disappear since it will become difficult to technically and financially meet the EU standards. In the next 5 years no substantial investments will be made. Some production rearrangements are planned. The full service plants will be changed for more focused plants. Special products will be geographically centralized to some of the plants. However, the main volumes will be still made in the local markets. There is also capacity to do custom-made orders for other companies. Developing the packaging techniques will increase storing dates and enables longer transportations.

4.3 Cross-case analysis and synthesis

This part describes a systematic analysis and findings of data. Firstly, the internationalization factors and processes of interviewed Finnish production companies are presented and discussed. This includes examination of internationalization motives and challenges, market entry modes, as well the final entry modes (greenfield or acquisition) for establishing the local production unit. Secondly, Poland's strategic importance for Finnish companies and possible effects from EU-membership, and export activities are analyzed. The aim of this part is to describe the business atmosphere and experiences of Finnish companies performing foreign operations in Poland. Thirdly, the distribution strategies and channel structures of each company are presented and illustrated for further synthesis being made in the final part concerning the distribution channel structure in foreign market entry.

4.3.1 Market entry process

Most often mentioned market entry motives for internationalization to Poland are:

- Poland is a big market with growth potential
- Company's Baltic Sea strategy
- Company's natural direction for expansion
- Poland is a good material sourcing market

Poland is seen as a big market with great volumes and growth potential in many industry fields. As the market of many companies is quite saturated in Finland and Scandinavia, the companies are looking for growth in other countries. Many companies describe Poland as the most attractive and growing market of the Baltic Sea countries. Interviewed companies mention their Baltic Sea strategy as one of the reasons to enter Polish market. Poland is the biggest market in the Baltic Sea, strategically significant for Finnish production companies, and enables to have a market, subcontractors and production facilities in the same Baltic Sea region. The Polish market is a natural expansion direction for many companies. The sourcing of high quality raw material and component retailing from Poland are also mentioned as market entry motives. Market entry motives to Poland mentioned only once were privatization programs, cross-border resource utilization possibility, strong traditions and know-how in the industry, lower production costs, long-term vision of the market development and suitable products for this market. Also the deep-water harbor, train connections and increased credibility when operating locally were mentioned.

The most common market entry challenges mentioned with quite similar frequency by interviewed companies concern:

- Achieving a competitive price level
- Creating a distribution and sales network
- Finding skilled people
- Managing taxation and bureaucracy
- Surviving tough competition
- Facing the sudden decline in some industry fields

For a deeper cross-case analysis, these most often mentioned market entry modes and challenges are divided according to the company's final FDI market entry mode (Table 4-1). The most common market entry modes can be clearly recognized from the answers. There are many challenges mentioned, however only one is mentioned more often than others. Concerning the cross-case analysis, no straight differences in the market entry motives and challenges were found between the entry modes acquisition and greenfield investment.

Table 4-1 The most common market entry motives and challenges (n=8)

Market entry motives	Acquisition	Greenfield investment	TOTAL
Big market with growth potential	4	3	7
Baltic Sea strategy	3	2	5
Natural direction for expansion	1	2	3
Material sourcing	2	1	3
Challenges	Acquisition	Greenfield investment	TOTAL
To achieve a competitive price level	2	1	3
To create a distribution and sales network	1	1	2
Find skilled people	0	2	2
To understand taxation systems	2	0	2
To manage bureaucracy	1	1	2
Survive tough competition	1	1	2
Low market development in some industries	1	1	2

The most important success factors in Poland concerned logistic operations such as good sales and distribution network, logistics know-how, own retail network and delivery certainties were considered. For Martela as an example, obtaining a local sales and distribution network through acquisition when entering the market has been very crucial. The local dealer has known the products and customers. Designing the sales and distribution network from the beginning would have been an extremely challenging task for an export company entering a

so highly competed market. Also for Raisio, the distribution network is very crucial for the company's success in Poland, where the business is very fragmented. 37% is in hands of western key accountants, 63% is traditional Polish wholesale trade. This means that the distribution network has to be well designed to manage to deliver the products to many retailers. Other often mentioned strengths and success factors were high quality products, successfully built brand awareness, competitive prices, support from the parent company, skilled local people, credibility and good market positions being among the biggest competitors.

In addition, a set of findings that interviewed companies encouraged to pay attention to in foreign market entry strategies, are briefly presented in the following. From the interviews conducted, nearly all interviewed companies stressed the importance of carrying out a careful market research. Also, many companies reminded new entering companies about the differences in governmental things: Poland is considered still very bureaucratic, with surprising taxation system and interpretations of local governments. Almost half on the interviewees emphasized on putting effort on finding reliable people and partners, and reminded new entering companies about the different business culture. Polish organizations are considered quite hierarchical, with high importance on a personal contact network. From the less mentioned the low wage average could mislead to think that all wages are low. However, wages differ significantly geographically and hierarchically.

Market entry patterns consisting of different market entry modes are illustrated in Figure 4-1. The market entry modes of each Finnish company to Poland have been arranged chronologically, adapting the internationalization pattern of Luostarinen (1993, 256). The market entry modes are export, sales subsidiary, and local production subsidiaries. Almost all of the companies except Kuusakoski and HK-Ruokatalo had export sales operations before entering the market. Also, the local production units seem to be established quite soon after establishing the sales subsidiary. Beside the order of market entry modes, the internationalization pattern also illustrates the time frame when the market entry modes have been carried out.

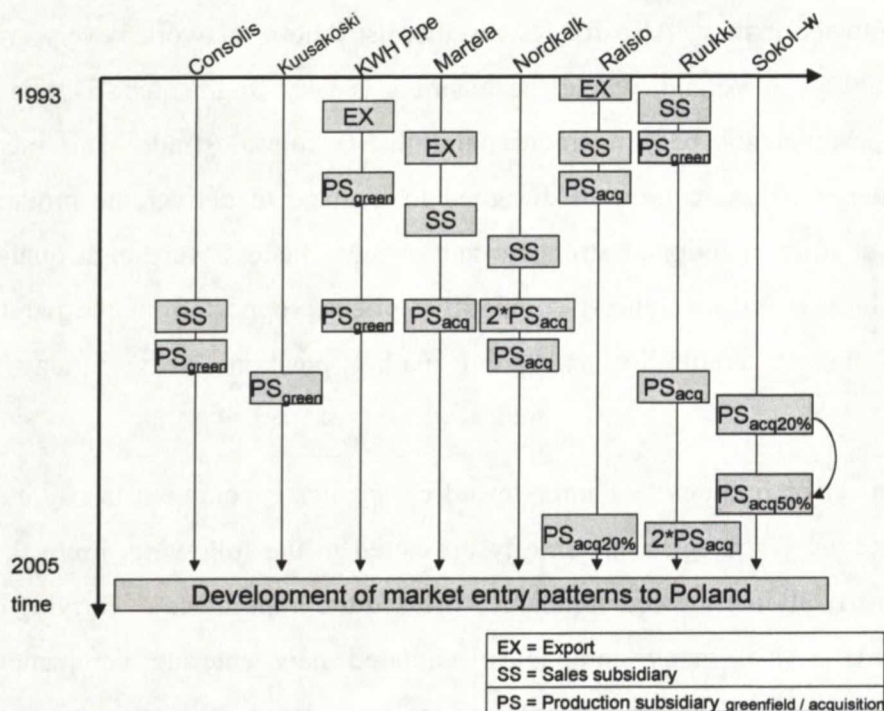


Figure 4-1 Market entry patterns to Poland

As a finding, most of the production companies established in Poland had the following market entry pattern. First the companies performed export operations with low risks through a Polish agent or dealer, to obtain the picture of the market and gain customers. The next step was the establishing their own sales subsidiary, delivering own products from the home country. The last step in finishing the internationalization process was establishment of the local production subsidiary. In most cases, the production subsidiaries have been established either through greenfield investment or through 100% acquisitions.

According to the further market entry mode analysis presented in Table 4-2, the local production subsidiaries in Poland had been established either through FDI modes greenfield investment or acquisitions. As a finding, the same amount of greenfield investment and acquisition modes were used in establishing the local production unit in the target country. However, it seems that companies entering the market through company acquisition are more satisfied with the decision than companies who have chosen greenfield investment. More unfavorable remarks were found concerning greenfield investment than company acquisition. Four companies started businesses from scratch as greenfield investments and four companies entered the Polish market through company acquisitions, of which one acquisition started as a 10% joint venture of HK-Ruokatalo in Sokolów.

Table 4-2 FDI market entry modes greenfield investment or acquisition

Company	FDI market entry modes	
	Greenfield investment	Company acquisition
Consolis Polska Sp. z o.o	x	
Kuusakoski Sp. z o.o	x	
KWH Pipe Poland Sp. z o.o	x	
Martela Sp. z o.o		x
Nordkalk Sp. z o.o		x
Raisio Polska Food Sp. z o.o		x
Ruukki Polska Sp. z o.o	x	
Sokolów S.A./HK-Ruokatalo		x

Four companies out of eight - Consolis, Kuusakoski, KWH Pipe and Ruukki – entered the Polish market through greenfield investments. Consolis went for the greenfield operation because of the lack of potential companies to buy out, explained Mr. Sakari Sipilä. Acquisition was a planned and desired mode, but there were no production plants near Warsaw that would meet the expectations. Finally, together with Polish partner Gofabet, Consolis bought an unaccomplished production plant. The benefit from the partnership remained poor and Consolis had to develop its business starting from scratch. In addition, the poor market development in the late 90's added difficulties in developing the business. Mr. Sipilä said, that if the company had been smaller, they would have thought many times of putting down the business. Now, with strong market growth the situation is totally different.

The metal refining plant of Kuusakoski was established as a greenfield investment on the Polish sea-coast in Gdynia. The most important factors for choosing the greenfield investment mode was that it enabled to enter the market with own conditions, small risks, and possibility easily withdraw the business from the market if needed. In other words, this entry mode was considered less risky investment than acquisition. "We went with small investments and small expectations", said Mr. Pertti Moilanen. Currently the business is critically monitored. The competition is fierce and there is grey economy even among the large competitors.

KWH Pipe established its operations to Poland also through greenfield investment. The most important factors for establishing production unit through greenfield investment were a good offer and proper infrastructure proposed by the local community. In addition, the acquisition mode was considered, but there was nothing attractive found for acquisition in central Poland. The key challenge for KWH Pipe was to find skillful and devoted people. KWH Pipe did not have any dramatic drawbacks that would have effected starting the business. Instead, the business developed smoothly, and KWH Pipe was rewarded as the Finnish Company of the Year in 2005.

The Ruukki production subsidiary was established as a greenfield investment in Zyrardow close to Warsaw. The main reason for choosing this entry mode was the totally new product introduced by Ruukki. There were no similar production plants that would be able to produce such products. Also, the greenfield investment enabled the company to build its production unit with increased capacity to meet the market growth.

Four companies, Martela, Nordkalk, Raisio and HK-Ruokatalo, entered the Polish market through company acquisitions. For Martela, the most important factors in choosing acquisition instead greenfield investment were the existing distribution channels. This was particularly important for Martela, as the office furniture business is traditionally B2B, with straight contacts with customers. In addition, the company acquisition brought four sales offices with sales representatives and a good customer base.

The most important factors for Nordkalk when entering the Polish market through acquisition were the big growth expectations in Poland compared to the saturated home market, repeating the domestic success pattern in a new market, as well as lower production costs.

Raisio established its Poland operations also through acquisition. The main reason for acquisition was, that the production could be started right away with the existing production line, whereas through greenfield investment the production could be started after two years. The interviewee of Raisio, Mr. Kari Körkkö would not recommend greenfield investment as a market entry mode. Mr. Körkkö said, that it is difficult for sure to start a business in Poland from scratch as greenfield investment. The best way entering Polish market is to find a company that has the basic elements such as products and distribution in good shape, and is lacking something new that the acquisition would bring into the business. Entering through greenfield investment and looking only on the Polish market is not a wise thing to do either, said Mr. Kari Körkkö.

According to HK-Ruokatalo Group CEO Mr. Simo Palokangas, 50-50 partnership with Danish Crown with a share majority of Sokolow was carried out more preferably than making a greenfield investment. The internationalization through greenfield investment was considered a quite long and difficult way of entering the market.

4.3.2 Strategic importance of Poland

The findings concerning Poland's strategic importance for interviewed Finnish production companies are presented from market, logistic and strategic perspectives. Also opinions concerning the effects of Poland's EU-membership are summarized. Finally, the export activities and future investments of companies are examined.

From market perspective, Poland is seen as a big country (40 million inhabitants) with a growing purchasing market and a great amount of skilled people. Geographically it is in the center of Europe and close to company groups' main market areas. Poland is a growing market in many fields of industry. From a logistic perspective, Poland is an important subcontracting and production country. It is seen as a distribution center of components and end products to other countries, even to Finland. Poland has not the lowest, but relatively low production costs in Europe and skilled workforce with a young age structure. The wage level is not considered to increase as fast as the price level in the near future. However, neighboring countries are becoming more and more competitive. Poland should be the essential direction of expansion for Finnish firms. From a long-term strategic perspective, the role of Poland and its business position in Europe will be extremely important. It is seen important to be close to the big market to avoid falling in-between the big and the small players. The strategic importance of Poland was well summarized by one of the interviewees: "You can't be absent from there, even though it is a huge battlefield."

The effects of Poland's EU-membership were considered mostly positive among the interviewed companies. Poland's decision to join the EU has had positive influence on the country's economic development, where three respondents mentioned the positive market growth as one of the major effects of the EU-membership. The information of Poland's EU-candidacy increased interest to enter the market and had positive impact on the final market entry decision in half of the interviewed companies. Majority of interviewees also mentioned, that the EU-membership has eliminated customs and border formalities, improving the possible cross-border operations for companies. According to one third of respondents the EU-standards have improved the legislation, contract culture, and decision-making to European level. Only once mentioned effects from the EU-membership were EU-funding enabling many projects, increased credibility and interest of the company in other EU-countries as well as increased FDI and privatization programs. To conclude, Poland's EU-membership in general is believed to have more indirect than direct effects on companies'

business operations. Almost half of the companies stated that the EU-membership has no direct effect on the business, as the business and competitors are still very local.

The share of exports out of total turnover is presented in Table 4-3. All interviewed companies have export operations from Poland. Almost two thirds of the interviewed companies export less than a quarter of their total turnover. The share of exports among these companies is considered to increase or stay at the same level. The rest one third of the companies export more than 25% of total turnover. Among these, especially Kuusakoski differs from others with 75% export share, mainly to Asia and Turkey.

Table 4-3 The share of exports out of total turnover (n=8)

Export %	Consolis	Kuusakoski	KWH Pipe	Martela	Nordkalk	Raisio	Ruukki	Sokolów	Total
1-25%	x		x	x		x		x	5
26-50%					x		x		2
51-75%		x							1
76-100%									0

The most common export countries are the neighboring countries Czech Republic, Germany, Slovakia, Lithuania as well as closely situated Hungary, as shown in Table 4-4. All interviewed companies described their business as very local, which partly explains the geographically close export markets. For many companies it is not profitable to move products for too long distances. Furthermore, the Ukraine as a potential export country in the future shared the opinions of interviewed companies. Some considered the Ukraine only as export country, some as raw-material source. On the one hand the Ukraine is seen as very attractive market, but on the other hand too risky to enter. One of the companies will definitely export to Ukraine and is very much looking forward to the market, developing it as one of the main export markets in the future.

Table 4-4 The main export countries

Export countries	Consolis	Kuusakoski	KWH Pipe	Martela	Nordkalk	Raisio	Ruukki	Sokolów	Total
Czech R.	x			x		x	x		4
Hungary				x		x	x		3
Germany			x		x			x	3
Slovakia				x			x		2
Lithuania	x					x			2
Netherl.			x						1
Belgium			x						1
Russia									1
Latvia						x			1
Ukraine				x					1
Russia						x			1
Asia		x							1
Turkey		x							1
Sweden									1

The future investments, especially production rearrangements concerned mainly cross-border actions, differentiation and automation. About cross-border actions, Ruukki is thinking of creating a cross-border production network in the EU-countries now when Poland is a member of the EU. Kuusakoski is increasing cost-efficiency by cross-border transportation of junk or partly processed metal for further development. KWH Pipe is differentiating and moving from “mass production” to “niche products” by increasing the production of prefabricated products. This way KWH Pipe can differentiate from the competitors, concentrating on its know-how and gaining better margins. Sokolów instead is planning to rearrange its production plants from plants producing all kinds of meat products to more specialized plants focusing on particular products in every plant. Some of the companies are planning to increase automation and modernization of production lines to improve productivity.

4.3.3 Distribution channel strategies

The distribution strategies implemented in Polish market are considered to have a rather direct nature, with the tendency to develop towards centralized distribution channel structures. The direct nature of many channels is explained partly with the high level of control, that companies want to have over their distribution channels. If some intermediaries are used, they are still being controlled from the main company. However in most cases, some of the simple physical distribution operations (transportation, assembly, warehousing) are outsourced to third party logistics 3PL, keeping the control and coordination of operations.

The distribution channel strategies described below are based on the answers obtained from the additional interviews of companies. However, the distribution channel information was not obtained only from Sokolów (HK-Ruokatalo). Hence, the researcher has made some own assumptions concerning this company, based on the previous interview data and other available data sources, to be able to locate all the companies in the later phase to the own framework.

Consolis uses direct delivery for its concrete element products delivered to construction firms or construction consultants. This strategy does not include any intermediaries, except the sales representatives selling the products. Distribution strategy in Poland is supporting the distribution strategy of the whole Group. The products are produced MTO, therefore there are no bulk products stored in the production plant. Because of the local nature of business and a small and stable amount of customers, the sales network is decentralized for achieving close contact with the customer, and the final products are delivered directly from the production unit to end customer. Currently the company is looking for new production facilities to remove the capacity shortages and to be able to meet the demand and create an effective distribution channel (Figure 4-2a).

Kuusakoski is specialized in recycling, supplying and refining metal-based products. Kuusakoski sources metal from Polish market, refines it, and exports most of the refined raw materials to other countries. This means, that instead of distribution strategy Kuusakoski has a sourcing strategy, where the aim is to get high volumes of raw material in a most cost efficient way, with own control over the channels. The strategy in Poland supports the Group's overall strategy. Kuusakoski has one metal refining plant established in Gdynia, and six side branches for collecting and processing the raw material. Most of the sourcing is made through own side branches, but some of the raw material is collected through traders and

retailers. The structure for raw material sourcing is similar but reversed to the centralized multi-echelon channel structure model (Figure 4-2b).

The distribution strategy of KWH Pipe in Poland is very direct B2B sales, where currently 90% of products are sold directly and only 10% through distributors. The distribution strategy in Poland is completely opposite to the Group's general strategy, as in the Nordic countries approximately 90% of products go through distributors. KWH Pipe is moving from mass production strategy towards niche, prefabricated, tailored-made products offered on the market. The company is investing in a new hall to be able to produce more prefabricated products. It can be assumed, that the distribution channel structure of the company is moving from the direct deliveries towards more centralized structure, with value-adding logistics center (Figure 4-2c).

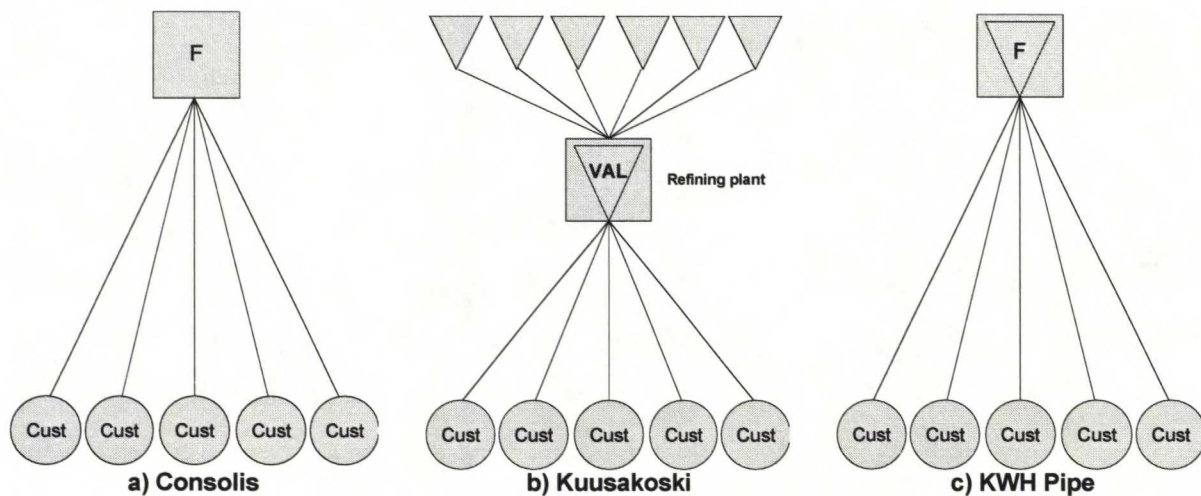


Figure 4-2 Distribution channel structures of Consolis, Kuusakoski and KWH Pipe

Martela's B2B distribution strategy in Poland is direct delivery through value-adding logistics center. Martela has centralized its production assembly to one logistics center, where currently 60% of the furniture is assembled from the components suppliers, and 40% is delivered directly from the subcontractors to end customer. In the future the figures will be 70% and 30%, which means that Martela is increasing the centralization of its distribution structure. MTO production is integrated with it-programs to improve the production efficiency and shorten the lead-time. The decision to create an own distribution channel differs from the Group's overall strategy used in Scandinavia. The reason for the direct distribution structure was the lack of skillful dealers, who could manage selling high-quality office furniture. In addition, the straight contact with the customer is needed to obtain a long-term customer relationship. Also brand awareness and efficiency of technology systems are better controlled through own integrated channels. In the future Martela will bring the franchising mode to its business to reach the highest possible market coverage in Poland (Figure 4-3d).

Nordkalk's main focus is to create trust, competence and quality, so the B2B distribution strategy is defined on the group level, and every country-specific unit creates its own distribution strategy individually within the own environment. In Poland Nordkalk uses mainly direct delivery, because 90% of company's products are delivered directly from four production plants to the customer, without any intermediaries. As the products are mainly functional, produced in large volumes, the MTS production strategy creates inventories in the production units (Figure 4-3e).

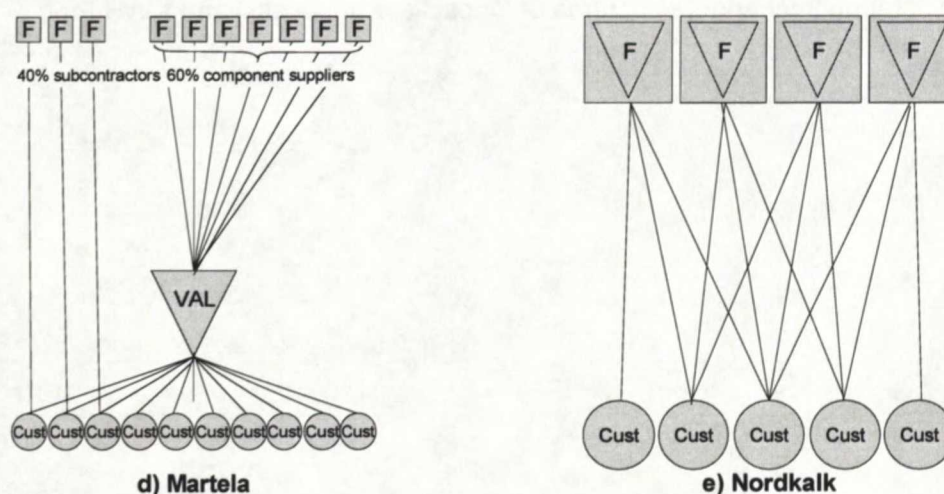


Figure 4-3 Distribution channel structures of Martela and Nordkalk

For Raisio a good B2C distribution strategy is extremely crucial in the highly competitive market. The aim is to reach high market coverage in Poland. The distribution strategy differs from the whole Group's strategy, as the Finnish business is centralized, with only few notable trade partners such as Inex, Kesko, etc. In Poland, Raisio has different strategies for traditional trade (small shops, markets) and for key accounts (super- and hypermarkets). In traditional trade (65% of business value) the products are distributed to wholesalers, and then delivered to small stores. This less convenient situation concerns two levels of intermediaries, which means 30% increase to the prices. Traditional trade has considerably longer distribution channels and is much more expensive for the producer (Figure 4-4f). In key accounts (35% of business value) the goods are distributed directly to big markets or to logistic centers (LC), without intermediaries. Even though the majority of business value is still gained from the traditional trade, the emphasis is in the key accounts. There are 120 000 fast moving consumer goods FMCG stores in Poland, covering both traditional trade and key accounts. Raisio products can be found in 80 000 stores, which means a 70% market coverage. As the key accounts are the most important customer group, it is important to have near 100% delivery (Figure 4-4g).

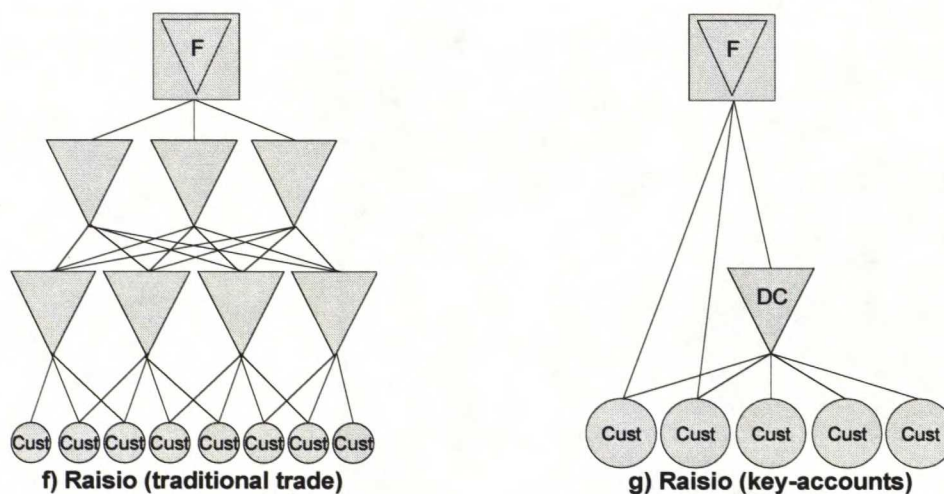


Figure 4-4 Distribution channel structures of Raisio

Ruukki's B2B distribution strategy has changed from the beginning of establishing a production unit to Poland, as the whole strategy in the Group has changed from product to total solution provider, starting in 2003 (Figure 4-5h). Also the amount of production facilities has increased from one to four. According to the annual report 2004, Ruukki opted in 2003 to a new strategy, where the objective is to be the most desired supplier of metal-based solutions and products to selected customer sectors in 2008-2010 (Figure 4-5j). This means, that Ruukki is shifting its focus from a steel product manufacturer to a supplier of metal solutions, aiming for long-term customer relationships as well. This solution will encompass components, systems and integrated deliveries. Instead of MTS production strategy, Ruukki uses MTO, which means that all products are ordered before manufacturing, and no inventories are kept. The company's distribution structure is moving from a indirect decentralized model towards more centralized and direct, value adding deliveries. Concerning intermediaries, the amount of dealers used so far will decrease in the future as the new strategy is being completed. The development of distribution channel structures of Ruukki is illustrated in Figure 4-5.

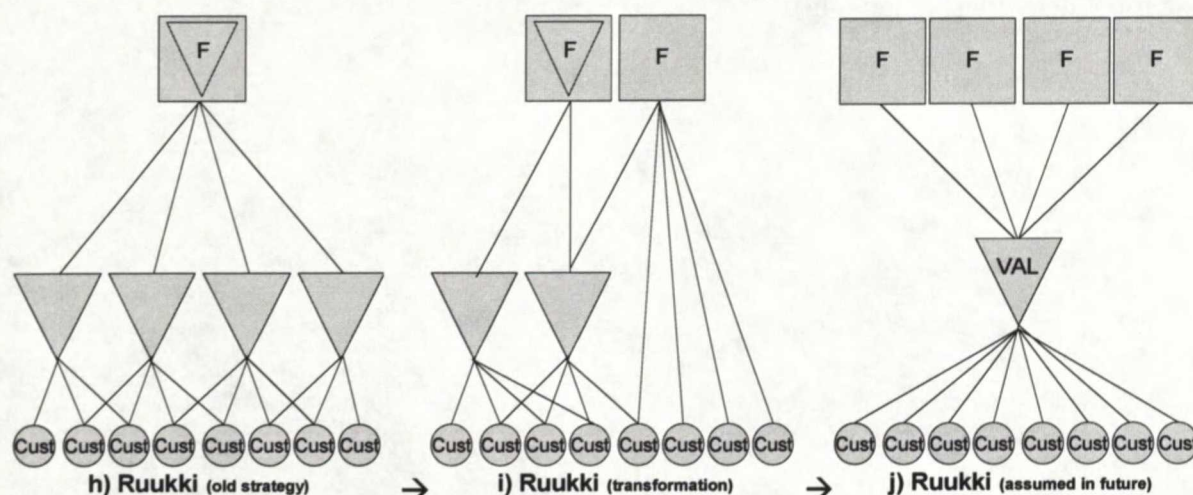


Figure 4-5 Distribution channel structure development of Ruukki

The Sokolów distribution strategy is assumed to be similar to Raisio: B2C food products with short life cycles and focus on the key accountants. In addition, it can be assumed that production arrangements that are planned in the Sokolów production units will change also the distribution structure towards more centralized structure. Sokolów has six production units in Poland, so probably the change will be from decentralized indirect distribution towards more centralized. However, as these are speculations, no distribution structure figure is presented, to avoid misleading information.

4.3.4 Distribution channel structure in foreign market entry

After examining the market entries of the selected Finnish production companies to Poland and their distribution strategies in the target market, the market entry modes and distribution channel structures of each company are combined into the final framework with two variables explaining the directness of distribution and the degree of centralization, as shown in Figure 4-6. However, the Sokolów company is excluded because of the lack of information concerning its distribution channel structures.

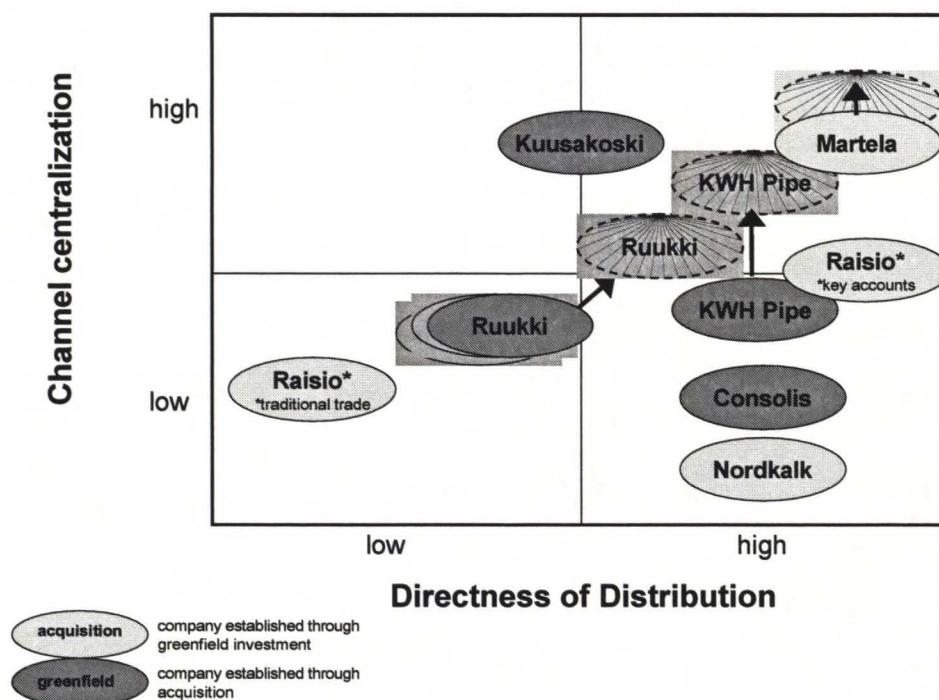


Figure 4-6 Effects of the market entry mode on the distribution channel structure

Companies established through greenfield investment (Consolis, Kuusakoski, KWH Pipe, Ruukki) have more direct and less developed distribution channel structures as companies established through acquisitions. The greenfield structures examined have a very high direct distribution nature with a low level of centralization. As the greenfield investment is considered a relatively slow entry mode to establish, it also affects the development of the distribution structures. However, it seems that these companies established through greenfield investment are restructuring their distribution channel strategies towards more centralized and value-adding models, maintaining the high level of directness in their distribution.

Based on the theory and empirical results obtained, the product type has an impact on the distribution channel structures as well. The change from functional product type towards more modularized or innovative product type changes the distribution structure to a more

centralized and direct one. Companies with functional and decentralized products will have to change their distribution structure towards more centralized when they move towards value-adding product solutions. This can be partly explained with cost efficiency and improved control over the product flows when centralized structures are used. Ruukki and KWH Pipe are both in the transformation stage in changing their strategies from product sales towards system and solution providers. Also Martela is moving towards more centralized and modularized structures by increasing the share of ATO products, whereas Raisio puts effort on the key account customers.

5 Conclusions

In this chapter the problem statement, objectives and the research process will be summarized, following the main contributions and findings of this study. Lastly, suggestions for areas of further research will be made.

5.1 Summary

This study was undertaken in order to increase the knowledge on market entry strategies of Finnish companies to Poland, especially for those who are planning to establish their operations in Poland. The main focus of this study was to examine the market entry modes and distribution channel structures of Finnish case examples established to Poland, from the managerial point of view. Consequently, the research problem of the study was defined as “What are the market entry modes of Finnish production companies established in Poland and what are the characteristics of their distribution strategies? ”.

Three objectives for the study were set to meet the research problem. The first objective was to examine through literature review, what the market entry modes and distribution channels used in the internationalization process are, and what the characteristics of Poland as a transition economy market are. The aim was to understand the nature of the market entry strategies used to specific target markets. The second objective was to create a framework in order to determine the internationalization patterns and distribution channel structures. The third objective was to identify and illustrate the relation of market entry modes and distribution channel structures of case companies.

In the next phase a literature review was conducted. The first half of the review consisted of literature related to internationalization factors and foreign market entry modes. In order to gain understanding on the specific research topic, the characteristics of Poland as a transition economy were presented as well. The second half of the review consisted of literature on distribution channels, intermediaries, directness of distribution, channel structures, and factors affecting distribution channel choice. Finally, the framework of key elements affecting the distribution channel structures in the foreign market entry was presented.

Internationalization, especially the different models concerning the process were presented and discussed. In order to understand the different market entry methods, the market entry modes and the internationalization pattern were examined. Also different market entry studies

were examined to give a more in-depth perspective to the research topic. As the research is largely based on examining Finnish companies entering Poland as the target market, the characteristics of Polish market as specific transition economy were therefore discussed be able to give complete picture of the research.

Distribution channel literature review focused mainly on the distribution channel directness and structures within the target market. The channel directness was examined through degree of ownership and intermediaries involved. Distribution channel structures, the effect of product types on the channel structure and the evolution of structures within the EU were presented. In addition, the factors affecting distribution channel choice with regard to the distribution channel structure were discussed.

Based on the literature reviewed, three key elements affecting the distribution channel structure in foreign market entry were defined: market entry process, target market Poland and distribution channel strategy characteristics. The aim of the key elements was to guide the empirical research, and to enable to define the relations between the internationalization processes and distribution strategies among case companies.

The empirical part of the study was based on the qualitative research, carried out through semi-structured interviews. Companies fulfilling the selection criteria were identified and contacted. Eight companies in total were interviewed for the study: Consolis Polska Sp. z o.o., Kuusakoski Sp. z o.o., KWH Pipe Poland Sp. z o.o., Martela Sp. z o.o., Nordkalk Sp. z o.o., Raisio Polska Food Sp. z o.o., Ruukki Polska Sp. z o.o., and Sokół S.A. (owned by HK-Ruokatalo). Next, the individual case descriptions of the eight production companies were presented. Each description included a short presentation of the group and its company in Poland, with the financial figures. The market entry process to Poland, special characteristics of the company, as well as description of the market and competitors were also presented. The findings of the empirical research based on the key elements of the framework were further examined in a cross-case analysis.

After the empirical research, all three objectives set for the study were met:

Firstly, market entry modes, characteristics of Poland as a transition economy, and the nature of distribution channels in the internationalization process were managed to identify. The main market entry modes were divided into export, contractual, and foreign direct investment (FDI) entry modes. Especially the FDI modes greenfield investment and acquisition were further discussed through several important empirical studies on the entry modes to Central

and Eastern European (CEE) countries. The typical characteristics for a transition economy were market liberalization, price liberalization, privatization, enterprise restructuring, and banking and financial sector reforms. Distribution channels within the target market were examined from different channel aspects. Especially the structure of distribution channels in terms of number of echelons, degree of centralization and degree of postponement, were discussed. Also the effects of product types on channel structures were examined.

Secondly, the framework consisting of three key elements such as market entry process, target market Poland and distribution channel strategy characteristics was structured for the further evaluation of the empirical study. The internationalization pattern was formed from the market entry modes described in the interviews. Furthermore, the distribution channel structure matrix was formed, based on the channel centralization and directness of distribution.

Third, the relation of market entry modes and distribution channel structures in the empirical research of each case company were successfully identified and illustrated, by combining them together into the final matrix.

5.2 Main findings

The main contributions to this research have been concerning market entry strategies and distribution channel structures of Finnish production companies to Poland. Considering the specific nature of Poland as a transition economy, this descriptive study has provided valuable documentation on the internationalization subject of Finnish companies and their distribution strategies. The novelty of the information obtained from different sources concerning this new EU-member country can also be considered to be of high value. This subject has been so far examined to a rather limited extend, mostly concentrating on western developed countries. Most importantly, this study has contributed to the internationalization literature, managing to define and illustrate through empirical study the relation of distribution channel structures to market entry modes.

The main findings based on the three key elements of the framework are summarized in the following. First key element was to examine the market entry processes of case examples. As a finding, the main motives to enter Poland were a big market with growth potential, the Baltic Sea strategy and a natural direction for expansion, and a good market for material sourcing. Many challenges were listed, but no major challenges were found. However, the internationalization pattern of case companies to Poland was managed to define based on their

entry modes. Most of the case companies followed the market entry pattern: export, sales subsidiary, and local production subsidiary. The market entry modes used for establishing the local production subsidiaries were defined to be either greenfield investment or company acquisition. Four companies established their local subsidiary through greenfield investment, four through company acquisitions. Surprisingly, acquisition mode was more preferred than greenfield investment.

The second key element focused on the target market, where Poland was considered from market, logistic and strategic perspectives a significant and important target market for Finnish companies. In addition, the effects of the EU-membership of Poland were considered mainly positive. In fact, the information of Poland's EU-candidacy had positive impact on the final market entry decision among half of the interviewed companies.

Through the third key element, the distribution channel structures of the eight case companies were formed. The distribution channel structures resulted to have rather a direct nature, which can be partly explained with the high level of control that companies want to have over their distribution channels. In addition, the FDI market entry modes greenfield investment and acquisition were successfully combined and illustrated to the final matrix, together with the distribution channel structures. The empirical results revealed, that the distribution channel structures of companies established through greenfield investments were less developed than the ones through acquisitions. In other words, the "greenfield structures" had very direct distribution structures, with a low level of centralization. To conclude, the general trend of the distribution structures is moving towards more centralized and direct ones, partly affected by the change in the product types from functional towards more differentiated and modularized.

5.3 Suggestions for future research

The main focus of this study has been on market entry strategies, examining the relation of market entry modes and distribution channels within the target market. Physical distribution logistics or distribution cost functions were left almost entirely out of the research focus. An interesting subject for further research, therefore, would be to explore in a more quantitative manner the costs related to the different distribution channel structures, varying on the degree of centralization and directness of distribution. General literature exists on the total distribution costs and time-based distribution (Abrahamsson 1993), but to date no research has been conducted on this issue taking into account the transition economies and their specific characteristics (i.e. rate of market development, production costs)

The scope of the study was to examine the internationalization processes of Finnish production companies to Poland from both international and logistic perspectives. Examining the internationalization processes of service companies would be an interesting subject for further research to be conducted, to obtain the overall picture of the internationalization patterns of both production and service companies.

Finally, the case companies in this study represented the market entry processes that were carried out before the enlargement of European Union. Therefore a comprehensive study comparing also the market entry processes of companies that have entered after the enlargement presents an interesting topic for future research.

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Moilanen Pertti, Director of Baltic States and Poland, Kuusakoski Sp. z o.o, 17.01.2006.

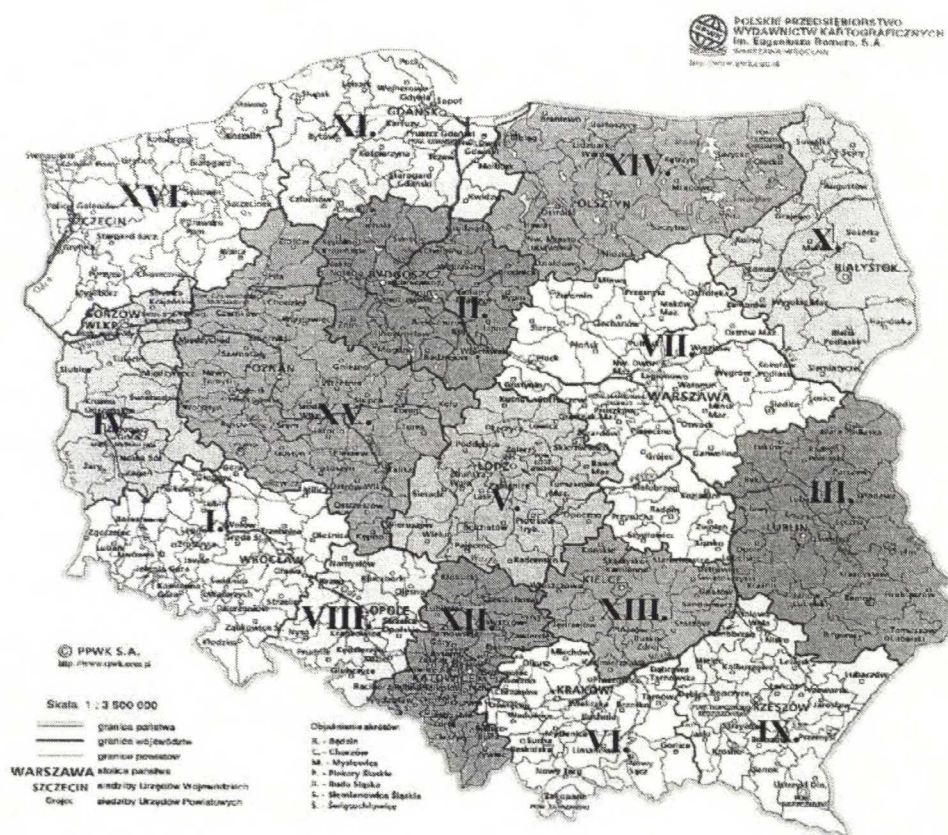
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APPENDIX 1: Finnish companies in Poland by counties (voivodships)



Amount of Finnish companies (168*) in Poland by voivodships

I. Dolnośląskie	(3)	IX. Podkarpackie	(2)
II. Kujawsko – Pomorskie	(1)	X. Podlaskie	
III. Lubelskie		XI. Pomorskie	(11)
IV. Lubuskie		XII. Śląskie	(9)
V. Łódzkie	(8)	XIII. Świętokrzyskie	(2)
VI. Małopolskie	(6)	XIV. Warmińsko-Mazurskie	(3)
VII. Mazowieckie	(78)	XV. Wielkopolskie	(10)
VIII. Opolskie	(2)	XVI. Zachodnio – Pomorskie	(33)

*Source: Finpro's unofficial statistics by 31st April 2006

KYSYMYSRUNKO

Taustatieto

Nimi:

Asema/yksikkö:

Yrityksen palveluksessa (v):

1. Yrityksen etabloitumisvaiheet Puolaan aikajärjestyksessä?
2. Mitkä olivat motiivit ja syyt valita juuri Puolan markkinat?
3. Mitkä ovat olleet suurimmat haasteet Puolan markkinoille tultaessa?
4. Onko Puolan EU-jäsenyydellä ollut vaikutusta yrityksen liiketoimintaan tai toimintastrategiaan?
5. Yrityksen tämänhetkiset markkinat ja miten ne ovat jakautuneet Puola vs. vienti ulkomaille?
6. Kolme tärkeintä tekijää jotka ovat vaikuttaneet menestymiseen Puolassa?
7. Millaisia tuotannollisia uudelleenjärjestelyjä yrityksessä on tehty kannattavuuden parantamiseksi? Entä tulevaisuudessa?
8. Puolan markkinoiden merkitys kasvaa koko ajan. Miten aiotte reagoida tähän asiaan?
9. Mikä on mielestänne Puolan strateginen merkitys suomalaisille tuotantoyrityksille tulevaisuudessa?
10. Millaisia neuvoja antaisitte uusille Puolaan tuleville suomalaisyrityksille?

APPENDIX 2-2: Interview questions

KYSYMYKSET:

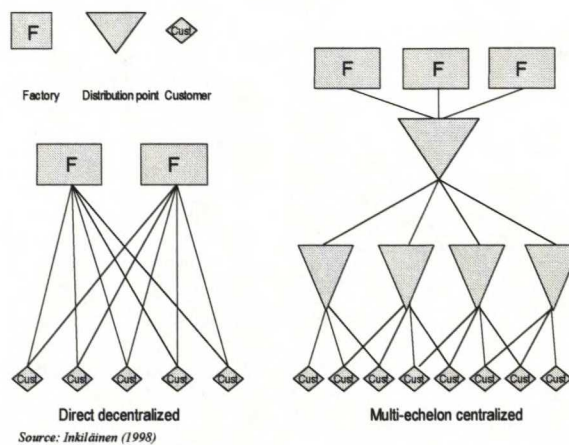
1. Mitkä tekijät ovat olleet yrityksellenne tärkeimmät valitessanne joko Greenfield Investmentin tai yritystoston Puolan markkinoille pääsemiseksi? () Greenfield () Yritystosto

2. Jakelustrategian määrittely:

- Kuinka määrittelisitte yrityksen jakelustrategian Puolassa? (esim. kattava, nopea, edullinen, palvelu, markkinoiden valtaus, jne)
- Kuinka se tukee konsernin yleistä jakelustrategiaa? (esim. noudattaa, laajentaa, muuttaa radikaalisti, mahdollistaa kasvun/rationalisoinnin Suomessa, jne)

3. Yrityksen jakeluverkoston rakenne Puolassa:

Jakelukanavan rakennetta voidaan tarkastella jakeluvaiheiden eli peräkkäisten varastoa pitävien toimijoiden lukumäärän (direct/multi-echelon) ja jakelun keskittymisen (decentralized/centralized) mukaan (kts.KUVA).



- Onko jakelurakenteenne lähempänä () suoraa (ei varastoivia väliportaita, vasen kuva) vai () epäsuoraa (väliportaita, oikeanpuoleinen kuva) rakennetta?
 - Mitä välikäsiä jakelukanavassa on?
 - maahantuoja
 - tukkumyyjä
 - vähittäismyyjä (retailer)
 - noutotukku
 - agentti
 - myyntiedustaja
 - muu, mikä _____
 - Onko jakelujärjestelmänne enemmän () hajautettu (asiakkaanne saa tuotteen useasta pisteestä kuten vasemmassa kuvassa) vai () keskitetty (asiakkaan toimitus tulee keskusvarastosta, oikeanpuoleinen kuva)?
 - Tukeutuuko jakelujärjestelmänne () itse tuotettuihin logistiikkapalveluihin vai onko ne () ulkoistettu?
3. Mitä tekijät olivat erityisen tärkeitä Puolan jakeluverkoston suunnittelussa?
4. Mitkä ovat suomalaisten tuotantoyritysten kolme yleisintä haastetta jakelun johtamisessa Puolassa?

(figures by year 2004)	Consolis Polska Sp. z o.o	Kuusakoski Sp. z o.o	KWH Pipe Poland Sp. z o.o	Martela Sp. z o.o	Nordkalk Sp. z o.o	Raisio Polska Food Sp. z o.o	Ruukki Polska Sp. z o.o	Sokolow S.A./ HK- Ruokatalo
FDI mode of establishment	greenfield	greenfield	greenfield	acquisition	acquisition	acquisition	greenfield	acquisition
# of production facilities	1	1	1	1	4	1	4	6
The share of exports out of total turnover (%)	5-10%	75%	25%	20%	40%	15%	30%	20-25%
Total personnel in group	5101	2772	2504	662	1288	1412	12126	7800
Personnel in Poland	186	69	137	50	276	240	207	3400
Personnel in Poland/group	3,6 %	2,5 %	5,5 %	7,6 %	21,4 %	17,0 %	1,7 %	43,6 %
Net sales of the Group (M€)	646,1	808,9	436,1	100,747	270,573	626,9	3,569	680,4
Net sales in Poland (M€)	6,5	69,783	19	3,9	20,056	35,5	279	342,5
Net sales in Poland/Group	1 %	9 %	4 %	4 %	7 %	6 %	7,8% (CEE)	50,34 %